

There's no business like show business, but there are several businesses like accounting.

David Letterman

Module Two: Glossary



In order to understand the concepts of budgets and financial reports, it is best to get to know essential terminology. Understanding basic financial terms and concepts will serve as the foundation for the rest of this course. In addition, having a foundation of financial terminology will help you understand discussions and other financial communication at both the individual and organizational level.

In this module, you will learn key financial terminology and concepts that will help you build your financial vocabulary and knowledge. You will learn the following terms and concepts:

- What is finance
- Commonly used terms
- Key players
- Important finance organizations
- Generally Accepted Accounting Principles (GAAP)

Let us begin by understanding what finance is.

What is Finance?



The term finance has broad meaning. According to the online Encarta® World Dictionary, finance could mean the money required to do something, the money at the disposal of an organization, country, or person. Finally, another meaning for finance is the business or art of managing the monetary resources of an organization, country, or person.

Many of us are here to today to learn how to deal with the finances of their company or organization. This aspect of finance is the focus of this course.

Everyday companies capture financial data and store it for later use to compare values with predetermined budgets. In addition, organizations create monthly reports they must deliver to the board of directors and make public to both the shareholders and the government.

Your involvement in finances may be because you have been promoted to a position that requires you to create and manage a budget. You may also be required to create reports about the finances in your area.

Understanding budgets and financial reports are crucial skills in determining how well a company is doing. Many times, the raw financial data does not give enough information on how the financial position of the company is doing.

Analyzing budgets and financial reports help you take action to correct trends that are taking the company off course in terms of budget and financial performance.

As you learn about budgets and financial reports, you will begin seeing this data as a useful tool for managing the everyday business functions. Before we get deeper into the topic, let us get a basic understanding of common financial terminology.

Commonly Used Terms

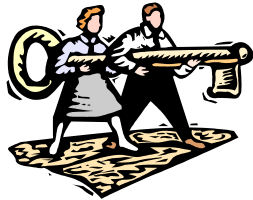


Finance has a vast vocabulary and we can spend the entire workshop just reviewing these terms. Having a grasp of all the terminology is not essential in order to have a working knowledge of finances at work. Here is a list of commonly used terms in finance that will help you begin your learning journey in this discipline:

<ul style="list-style-type: none">• Accounting• Assets• Balance sheet• Budget• Capital• Cash flow• Credit• Debit	<ul style="list-style-type: none">• Depreciation• Equity• Expenses• Financial ratio• Income• Income statement• Liability• Net income
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This list of terms is going to help you during the workshop. This list is not an all-inclusive list and as we navigate through this course, you may encounter other terms. When you do, please write them down. This will help build your vocabulary and knowledge in finances.

Key Players



Many people utilize the financial data of an organization. The purpose will vary, but the fact remains that accurate budget and financial reports are necessary to meet each of those key player's needs.

Here is a list of those key players and their role:

Player	Role
CEO	They use financial data to steer the organization to the strategic vision, mission, and goals of the organization.
CFO	They ensure that the financial data is accurate and create reports. In addition, they analyze the information and help the CEO make decisions.
Senior Leadership	They use financial data to control budgets of several departments and business units.
Accounting	They collect financial data and record them daily in computer systems for compiling at the end of the month.
Department Managers	They use financial data to manage their areas or business units.
Board of Directors	They use financial data to determine how well the organization is doing and hold leaders accountable for meeting budgets and other obligations.
Government Regulators	They use financial data to determine if the company is being managed according to rules.
Stockholders	They use financial data to determine if the company is profitable and being managed well.
Investors	They use financial data to determine if they want to purchase stocks in hopes of a financial return.
Creditors	They use financial data to determine if the company is capable of paying back a new or current loan.

Important Financial Organizations

Several financial organizations help shape the way financial data is structured and reported. Some organizations are private institutions and others are government run. Here is a list of the most important financial organizations.



- **United States Securities and Exchange Commission (SEC):** The SEC works with private organizations like the AICPA and FASB to help set standards for accounting principles.
- **American Institute of Certified Public Accountants (AICPA):** This organization publishes audit and accounting guidelines, provide guidance on financial reporting topics until standards are set by the FASB or GASB. Publish practice bulletins, which focus on reporting issues not handled by the FASB or GASB
- **Financial Accounting Standards Board (FASB):** This organization publishes the statements of financial accounting standards, statements of financial accounting concepts, interpretations, and technical bulletins related to accounting standards.

This organization also has an Emerging Issues Task Force (EITF), which handles new and unusual financial issues that may have the potential to be a larger problem in the industry.

- **Governmental Accounting Standards Board (GASB):** This organization deals with government financial reporting issues. It resembles the FASB, but deals exclusively with government agencies.

Understanding GAAP



The Generally Accepted Accounting Principles were developed to give a consistent framework for companies to use in structuring their financial statements. Organizations are required to follow GAAP standards and most accountants and auditors are familiar with this concept and use it every day.

If you are not an accountant or auditor, that is okay. Understanding GAAP will help you realize the importance of keeping excellent records of your revenue and expenditures in your area.

Furthermore, understanding GAAP will increase your financial vocabulary and knowledge of why financial reports must conform to a particular set of standards.

In general, GAAP deals with the following reporting standards:

- When is revenue recognized as actual revenue that can be counted? This prevents overstatement of revenues by determining when revenue can be claimed or recognized.

- Balance sheet item classification standardizes the items found on the balance sheet to avoid confusion.
- Outstanding share measurements

You may not have to deal with these principles on a daily basis, but understanding their importance in the area of budgets and financial reports will help your credibility because this is a very common and basic concept in this area.

Case Study

Sara had recently been promoted, and with that promotion, she became a key player in respect to the company's finances. With the position came the responsibility of creating a monthly financial report. Sara learned that these reports were much more than just numerical data. Instead, they also included an overview of the financial situations. These helped give context to the data and a clearer image of the company's financial standing.