Business Terms

Assets: The items the firm owns: cash, buildings, equipment, accounts receivable (money that is owed to the firm), inventory of products that are being held for sale.

Accounts Payable: The amount the firm owes to others for goods and services rendered but not yet paid.

Accounts Receivable: Amounts owed to the firm by others for goods and services rendered for which they have not paid.

Amortize: The accounting term that describes the allocation of the expense for a major item over several years.

Balance Sheet: Since “balance” means equilibrium, the balance sheet lists the firm’s Assets on one side of the scale and Liabilities and Owners Equity on the other side. Accounting principles require that the two sides must have equal values.

Economic Index: The method in this simulation to describe the overall economic conditions in the U.S. It is based on a starting (index) value of 1.0. If the forecast is for 1.06 then the overall economic conditions would be expected to increase by 6%.

Change in Inventory Value: The net change in the value of the inventory at the end of a quarter. For example, if the value of the beginning inventory was $46,000 and the value at the end of the quarter was $26,000, the change in inventory value would be $20,000. Since the ending value is less, some of the stock of inventory was sold.

Cost of goods sold: The total costs of manufacturing a product: materials, labor, utilities, etc.

Depreciation: The accounting term that describes the allocation of the expense of a physical asset (i.e., building, equipment, etc.) over several years. In the simulation, the plant is depreciated at 3% of the value of the plant. Example: 35,000 plant size x 3% = $1,050.

Earnings per share (EPS): a common financial analysis that indicates how much profit each share of stock made in a given time period. It is calculated by dividing the current profits by the number of shares of stock. Common practice is to annualize it by multiplying it 4 times to convert a quarterly EPS to an annual EPS. Example: $100,000 quarterly profit) 40,000 shares of stock = $2.50 per share for the quarter times 4 quarters in a year = $10 earnings per share. Stocks can sell on the stock market for some multiples of this value, usually from 7 to 25 times the EPS. ‘High Flying’ technology stocks may sell for as much as 100 times the EPS as investors are banking on unusually high future returns.

Gross Margin: (Gross Profit): Indicates the sum that remains after the direct production costs have been allocated (Sales - Cost of Goods Sold = Gross Margin). It is a financial test that can aid a firm to know whether its costs are in line with the industry averages.

Common Business Terms (continued)

Liabilities: Amounts that are due others that have not yet been paid: loans, accounts payable, mortgages.

Loss Leader: Any product that a store uses to draw additional customers. The loss leader is priced at the lowest possible price. The manufacturer cannot control what prices stores choose. While a loss leader sells more of the manufacturer's products, the practice creates ill will with other retailers that want to maintain normal markups.

Overhead Expense: All the expenses of a company that are relatively 'fixed' in nature and not part of the production cost of the product or service, such as supporting staff payroll and fringe benefits, insurance, power and light, telephones, computers, travel. These are costs that would go on whether or not the firm was manufacturing a product.

Owners Equity: The value of stock that has been sold plus the retained earnings (profits retained for business uses). Although profits may be retained in a firm to help finance the firm, it still belongs to the stockholders and are thus listed as part of stockholders equity.

Production Cost: The total direct costs of producing a product such as production line labor, raw materials that go into making the product, maintenance on equipment, etc.

Quality programs: Over the past two decades U. S. firms have paid more attention to the quality of goods or services they offered in order to match the quality of foreign products. There are various names given to these programs including Total Quality Management, Quality Circles, Continuous Improvement, Re-engineering, etc.

Retained Earnings: The amount of profits that have not been paid as dividends but rather held in the firm for working capital, growth, and other needs.

Stock: Stock is sold to investors and it represents ownership in the firm. Stockholders expect to be rewarded for their investment by the value of their stock rising and/or dividends paid.

Working Capital: The amount of funds the firm has available in the short term (30 to 90 days) to purchase goods and services, and to build up the stock of inventory.

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