



Small Business Owners: Accounting & Financial Jargon You Need to Know

Small Business Owners

Accounting & Financial Jargon You Need to Know

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Table of Contents

Introduction	4
Chapter 1	
Understand Basic Small Business Documents	5
Chapter 2	
Understand Basic Reports	19
Chapter 3	
Understand Accounting Terminology	22
Chapter 4	
Understand Tax Terminology	27
Bonus Chapter	
Understand Marketing Terminology	31
Conclusion	35

Introduction

*Do you speak fluent accounting-ese?
Is finance-speak your mother tongue?*

No? You're not alone. A [2014 Intuit study](#) found that more than 40% of small business owners identify as financially illiterate... even though 81% of them are doing their business's finances themselves.



Ouch.

These intrepid small business owners need a handy reference tool that explains the mechanics of basic small business documents and provides definitions of common accounting and financial jargon. And we're giving it to them.

In this eBook, you'll get the foundation you need to prepare professional accounting documents and clear definitions of common financial, tax and marketing terms you'll encounter as a small business owner.

Consider it a helpful resource you can keep in your back pocket when financial babble starts to feel nonsensical. You might even slide yourself into the category of financially savvy.

Read on!

Chapter 01

Understand Basic Small Business Documents

Step 1 of running a small business
is securing work.

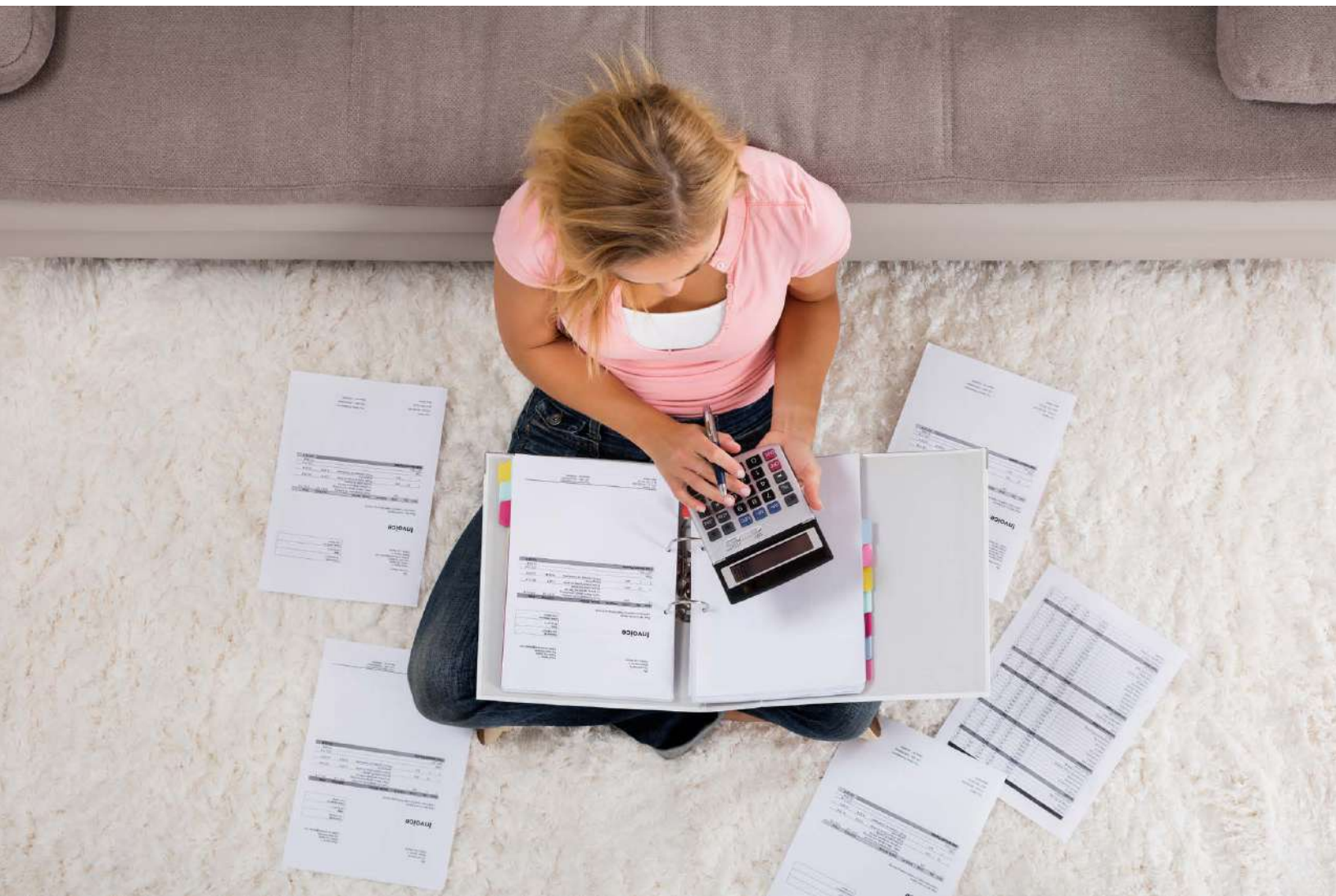
Step 2 is getting paid.

If you want to signal to your clients that you're a professional operation, clearly communicate the terms of a project and ensure you get paid in a timely way, it's important to be able to produce an invoice, an estimate/quote and a proposal.

The Invoice

Benefit: If you could have only one accounting document, the invoice would be it. Without it, you won't get paid.

Definition: An invoice is a bill you send to your clients outlining the service you performed, the amount they owe you and when you expect to be paid.



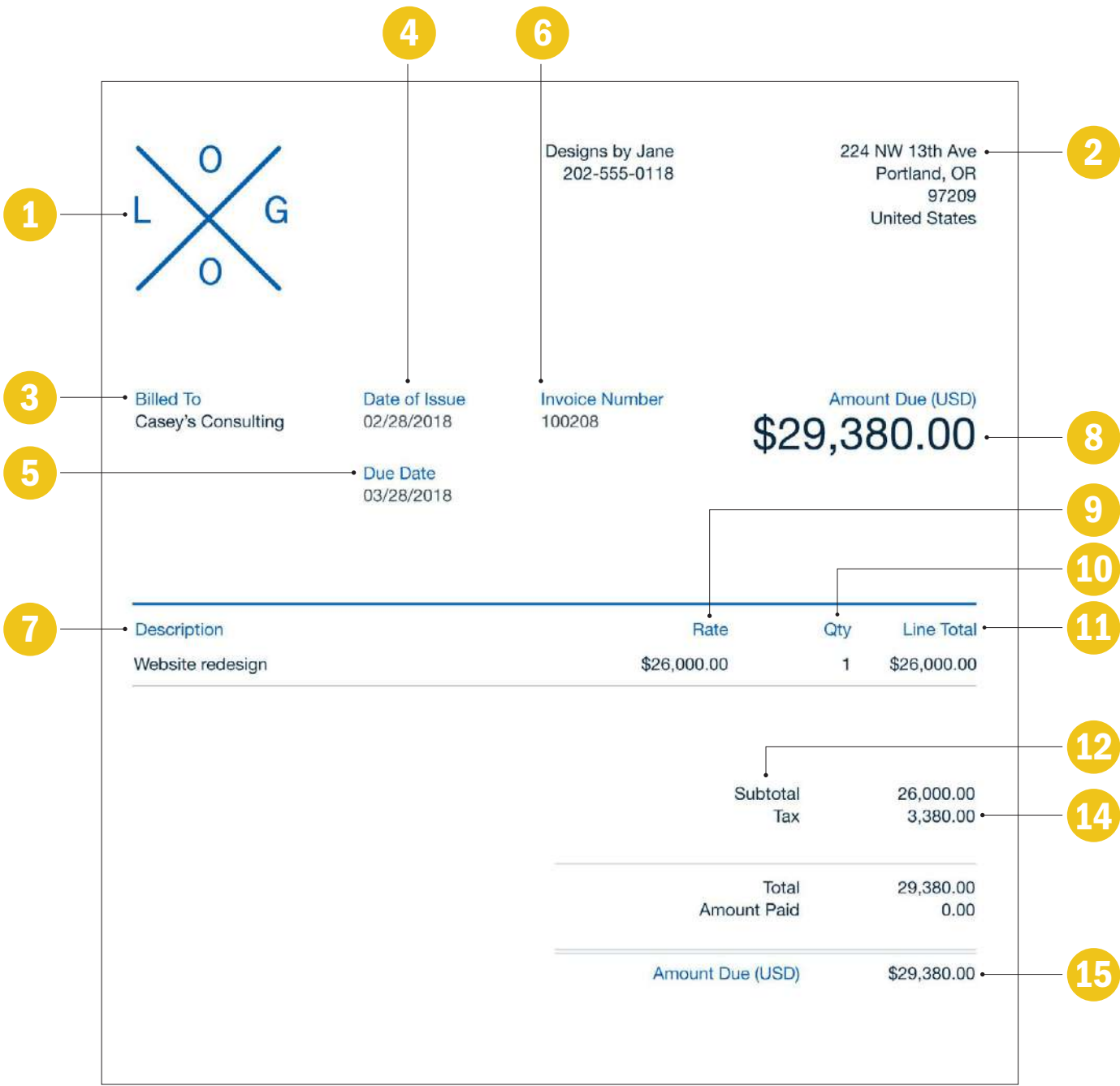
Freelancers working on a side hustle and small business owners just starting out often overlook the importance of setting up an efficient invoicing system. While nothing beats the ease of banging off a quick invoice using a Word or Excel template – some people even jot them down by hand – there are long-term consequences to taking this shortcut.

It might be easy to keep track of invoices when you have only a handful of projects, but when things get busy, it's much more difficult to stay on top of who's paid and when. And without a clear record-keeping system, you're creating more time-consuming work for yourself at tax time. Most small business owners who switch from their "simple" solution to accounting software discover relief and clarity with a proper system that does a lot of the work for them.

Every business accounting software package includes a basic version of an invoice that you can customize for your needs. Cloud accounting solutions geared specifically to small businesses are especially easy to use.



What Does a Basic Invoice Look Like?



A Professional-Looking Invoice Will Include

- 1 **Your logo:** Shows you're a bona fide business. (If you don't have one yet, try one of these [easy to use logo creator tools for freelancers and small business owners.](#))
- 2 **Your contact information:** Clients are reassured when they know how to reach you.
- 3 **Client information:** Clients like to confirm that you've got their information right.
- 4 **Date:** Date of the invoice, not the date you completed the work.
- 5 **Due date:** When you expect to be paid (usually 30 days from the date of the invoice).
- 6 **Invoice number:** You and your customers can track your invoices more precisely than by date alone.
- 7 **Description of services rendered:** Itemize by task (e.g. Writing, Editing, Researching) or by project (Marketing Brochure for ABC Company).
- 8 **Amount due:** At-a-glance access to what is owed for easy reference.
- 9 **Rate:** An hourly or a flat fee for each of your services.
- 10 **Quantity:** The number of hours or units of service you provided.
- 11 **Line total:** The amount each service cost.
- 12 **Subtotal:** The service cost before tax.
- 13 **Discount (optional):** For special projects or clients.
- 14 **Sales tax and your business number:** Appropriate sales tax for your region and any registration numbers associated with it.
- 15 **Amount due:** Total after the taxes have been added to the subtotal.

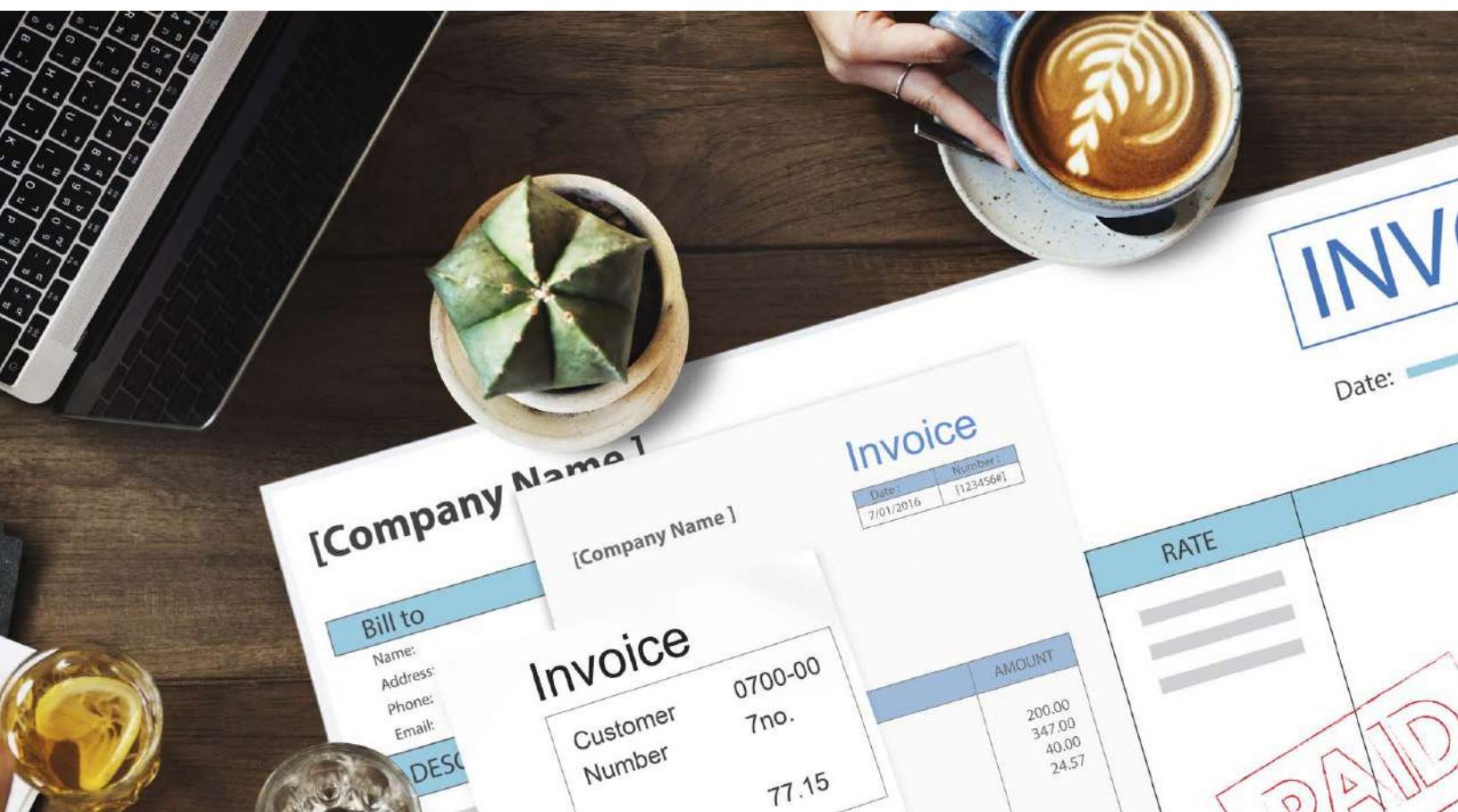
Request a deposit: Ask for a deposit, by dollar amount or percentage of the project total. Mostly used by small business owners who need to buy materials to complete a project.

Add a payment schedule: When a project is large or the work will be carried out over a longer time period, set up milestone payments so you're paid regularly instead of in one lump sum.

Notes: Add any reference numbers the client may need to pay the invoice, including purchase order or bank transfer details.

Terms of payment: Research shows that your customer is more likely to honor the terms if you're polite, i.e. "Please pay within 30 days. Thank you for your business!"

Note: This is a replica of a FreshBooks invoice, a cloud accounting solution that allows you to email the invoice straight to the client, keeps a record of every invoice you send and notifies you if any become overdue. Other features include setting up automatic late payment reminders, accepting online payments straight from the invoice and charging late fees.



The Estimate or Quote

Small business owners like tradespeople, graphic designers and consultants are often asked to prepare a cost estimate or quote for a project before the client agrees to hire them. An estimate outlines the services you're proposing and the prices associated with them.

An estimate clearly communicates to your client what a project will entail and how much it will cost, based on your initial discussion. It's an important document that allows you both to agree to the scope and price of the work.

However, it's important to communicate to your client that an estimate is just that – an educated guess. If you're a contractor who encounters termites behind a wall or a wedding photographer who's asked on the big day to capture each of the bride's 15 cousins and their families, the estimated cost will change. It's important to note on the estimate that anything beyond what is outlined will be a separate charge.



What Does an Estimate Look Like?

Designs by Jane
202-555-0118

224 NW 13th Ave
Portland, OR 97209
United States

Logo

Description	Rate	Qty	Line Total
Website Design Scope of Work: <ul style="list-style-type: none"> • Competitor research • Information architecture • Wireframes (2 rounds of feedback) • Design (2 rounds of feedback) Timeline: <ul style="list-style-type: none"> • Week 1: Research and Creative IA • Week 2–5: Wireframes • Week 5–7: Copy and photography • Week 5–8: High-fidelity design • Week 8: Deliver final design 	\$26,000.00 +Tax	1	\$26,000.00

Billed To
Casey's Consulting

Estimate Number
100207

Estimate Date
02/28/2018

Subtotal 5,000.00
Tax 650.00

Estimate Total (USD) \$5,650.00

Notes
Exclusions: Logo design and branding is not part of the website design fee. There will be an extra cost if you need this service.

Terms
Thank you for your business. Please send payment within 21 days of receiving this invoice. There will be a 1.5% interest charge per month on late invoices.

Your Estimate Should Include

- 1 **Your logo:** Show your clients that you're a legitimate business. (If you don't have one yet, try one of these [easy to use logo creator tools for freelancers and small business owners](#).)
- 2 **Your contact information:** Let your clients know how to reach you.
- 3 **Your customer information:** Reassure clients you have their information right.
- 4 **Estimate number:** Helps you and your customer track the document.
- 5 **Estimate date:** This is important to note if the cost of any materials you need to purchase fluctuates. You may include in the notes section below that the estimate is valid for a specified period of time after the date of issue.
- 6 **Description:** Itemize the services you will perform as part of the project in as much detail as possible.
- 7 **Rate:** How much does each service cost? This can be an hourly or flat rate.
- 8 **Quantity:** How many hours will each service take? Or enter 1 if it's a flat rate.
- 9 **Line total:** Cost of service.
- 10 **Subtotal:** Cost of whole project before taxes.



- 11 Taxes and registration number:** Appropriate sales tax for your region and any registration numbers associated with it.
 - 12 Estimate total:** Total cost of project, including taxes.
 - 13 Notes (optional):** Add a personal touch, such as “I’m looking forward to working with you!”
 - 14 Terms and conditions (optional):** Indicate when the estimate expires, e.g. “This estimate is valid for 90 days after the date of issue.”
- This is what a FreshBooks estimate looks like. You can send an estimate straight to the client by email and you’ll be notified when the client has viewed and accepted it. And when the project is complete, you can convert it to an invoice in just a few clicks.



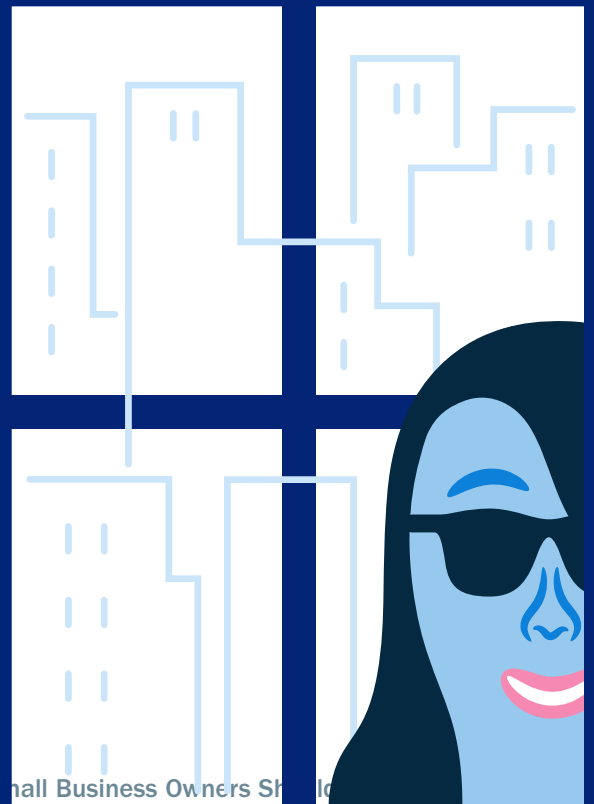


Stalk Your Invoices (in a Good Way)

Stay in-the-know, at all times

Try It Free

**INVOICE
PAID**



Small Business Owners Should

The Proposal

Many small business owners need to provide a little sizzle with their sell. You might be competing with other professionals for a project, want to share your unique approach, offer details such as timelines and even showcase samples of your past work or testimonials from satisfied customers. All of this is difficult to do in a simple cost estimate.

A proposal allows you the flexibility to demonstrate the value of the work you do, while also including important cost information.



Your Proposal Should Include



Your logo: Your proposal will be taken more seriously if you have a professional logo. (If you don't have one yet, try one of these [easy to use logo creator tools for freelancers and small business owners](#).)

Your contact information: Make it easy for a prospective client to get in touch with you.

Client information: Another sign of a professional document.

Proposal date & proposal number: Good for record-keeping.

Overview: Describe the overall project as you understand it, including its purpose and goals.

Scope of work: What will it take to complete the project? Itemize the tasks or services associated with each step. Be specific and include your personal approach, i.e. what you'll do that others won't.

Timeline: How long will each task of phase of the project take? If you don't have hard deadlines, include an estimated timeline for each.

Additional sections: Add supporting documents, such as samples and testimonials from similar work.

Pricing: Just like an estimate, break down the services by task or product and include a rate (hourly or flat) and quantity.

Subtotal: Cost of whole project before taxes.

Taxes and registration number: Appropriate sales tax for your region and any registration numbers associated with it.

Proposal total: Total cost of project, including taxes.

Notes (optional): Add a personal touch, such as “I’m looking forward to working with you!”

Terms and conditions (optional): Indicate when the proposal expires, e.g. “This proposal is valid for 90 days after the date of issue.”

The FreshBooks Proposals feature allows the same functionality as an Estimate with more flexibility for additional information. Just like the Estimate, you can send a Proposal by email straight to the client from FreshBooks and you’ll be notified when they’ve read and even accepted it. It’s also easy to convert to an invoice when the project is complete.



Chapter 02

Understand Basic Reports

Whether you've been an entrepreneur for a few months or a few years, it's important to understand what makes your business tick.

*Are you bringing in more or less than you did last year?
Last quarter? Last month?*

Which services do you spend the most time on?

Which are most profitable?

Who are your biggest clients?

With the right accounting software, you can have easy access to this kind of insight, which will help you make big-picture business decisions that ensure you're on a growth trajectory.



Here are some basic reporting items you should keep an eye on every month so you know if you're on the right track:

Profit & loss (P&L). You can't know your true profit until you factor in your expenses (e.g. employees, equipment, supplies, rent, phone, etc.). It's important to regularly check in on your P&L so you know exactly where you stand—and how you can improve.

Expenses. It's not enough to know what you're spending, you need to know where you're spending it. A high-quality accounting solution will allow you to categorize your expenses so you can see exactly where your money is going. You'll be able to make real-time adjustments if your P&L is out of balance.

Productivity. When you keep an accurate log of how you spend your time, you'll know you're getting paid for every billable moment. Time tracking also offers insight into how you spend your time—pinpointing inefficient moments and shining a spotlight on how long common tasks really take. You'll know exactly what how much you really earned on those flat-rate projects and know you're not leaving any money on the table for hourly projects. Plus, you'll be able to provide more accurate quotes on future projects.

Sales tax summary. Individual invoices break down the amount of sales tax you're charging and remitting, but it's important to have access to the grand total to ensure you're putting aside the exact amount you need at tax time.

Outstanding revenue. Stay tuned to how much money is owed at any one time. This can inform your expense budget and ensure you don't let anyone become too overdue in paying you.

Income by customer. You should know which customers are most important to your bottom line so you can be sure they feel valued—and so you can look for others like them.

Income by service. Most small businesses offer a variety of services. Which ones bring you the most revenue? Stay focused on profitable services and look for ways to grow them.



Chapter 03

Understand Accounting Terminology

Do you find yourself disengaging when talking to a financial advisor, accountant, bookkeeper or other numbers-professional?

It's only natural:

their profession's jargon can be as impenetrable as a doctor's or a lawyer's.

Here are some common terms you can keep handy for your next meeting.

Accounts payable. Money that your business owes to other businesses and creditors to purchase services or goods. [Source](#)

Accounts receivable. Money that customers owe your company as payment for goods or services. [Source](#)

Accruals. A list of expenses that your business has incurred but you haven't paid yet (e.g. utilities, rent, phone, etc.)—or sales that you've made but you haven't billed for yet. [Source](#)

Amortization. The paying off of debt with a fixed repayment schedule in regular installments over a period of time, e.g. mortgage or car loan. [Source](#)

Appreciation. An increase in the value of an asset over time, including increased demand or weakening supply or as a result of changes in inflation or interest rates. [Source](#)

Assets. Physical things that your business owns, including equipment, property, land, cash and tools. Sometimes intangible assets such as stocks, copyrights, patents and trademarks can be considered assets too. [Source](#)

Balance sheet. An overview of your business's financial status, such as assets, liabilities and equity. [Source](#)



Capital. The amount of money your business has access to for investing into the company or spending on necessary items for it. It's one of the main things a financial institution will inquire about if you're looking for a small business loan or start-up financing. [Source](#)

Capital expenditure (CapEx). Funds used by a business to acquire, upgrade or maintain physical assets such as property or equipment. This type of financial outlay is also made by business owners to maintain or increase the scope of their operations. [Source](#)

Cash flow. The total amount of cash moving in and out of a business. It's the difference between the amount of cash available at the beginning of a period (opening balance) and the amount at the end of a period (closing balance). [Source](#)

Equity. The amount of money a business owner invests into their company. [Source](#)



Fixed expense. The amount of money you spend to operate the business—that stays consistent over time, such as salaries and rent. These expenses are not affected by fluctuations in sales, production or the market. [Source](#)

Variable expense. The amount of money you spend to operate the business—that is tied to your company’s activity, such as gas and travel expenses and supplies for specific projects. These costs can go up or down based on increases in sales. [Source](#)

Accrued expense. The amount of money you spend to operate the business—that has been reported in your accounting records, but you’ve not yet paid for, such as taxes or wages. [Source](#)

Operational expense. The amount of money you need to spend to conduct your business. [Source](#)

Financial statement. A record containing the balance sheet and the income statement. [Source](#)

Fiscal year. A period of time a business uses for accounting purposes and in preparing financial statements. It can coincide with the calendar year, but it can also be different, e.g. October-October, April-April. [Source](#)

Forecasting. Using your business’s historical financial information to predict future business trends. Forecasting helps small business owners estimate budgets. [Source](#)

Income statement. A summary of your business’s income and expenses. [Source](#)

In the black. When there is profit on the books. [Source](#)



In the red. When there's a loss on the books. [Source](#)

Liabilities. Debts that a company must pay in the short or long term. [Source](#)

Net income. A business's revenue minus expenses, taxes, depreciation and interest. [Source](#)

Profit and Loss (P&L) statement. A report that lists earnings, expenses and net profits for a specific period of time. [Source](#)

Reconciliation. An accounting process that uses two sets of records to make sure figures are correct. It confirms whether the money leaving an account matches the amount that's been spent—making sure the two numbers balance at the end of a recording period. [Source](#)

Revenue. The amount of money a business collects for goods or services sold before any expenses have been subtracted. [Source](#)



Chapter 04

Understand Tax Terminology

There's a good chance you outsource your tax preparations to an accounting professional, but wouldn't it be great if you could feel like you're having some semblance of an intelligent conversation with them?

We're here to help.

Here are some of the most common tax terminology—and the tax forms you're most likely to encounter in the U.S.



Adjusted gross income (AGI). A measure of income calculated from your gross income and used to determine how much of your income is taxable. AGI factors a number of deductions from your gross income to reach the figure for which your income taxes will be calculated. [Source](#)

Carrybacks or carryforwards. Deductions that can be transferred to a year other than the current year because they exceeded certain limits, e.g. charitable contributions and net operating losses.

Deductible expense. The amount of money a small business may deduct from its gross earned income for federal tax purposes. The IRS specifies that deductible expenses must be “both ordinary and necessary. An ordinary expense is one that’s common and accepted in your trade or business. A necessary expense is one that’s helpful and appropriate for your trade or business”. [Source](#)

Deductible expenses: Assets vs. expenses. Items that are expected to last for longer than one year (e.g. computers, furniture, printers, etc.) are considered assets, not expenses. Instead of expensing the cost, classify them as an asset on your balance sheet, then write off the cost as depreciation expense over the asset’s useful life. [Source](#)

Depreciation. The decrease of an item’s value over time due to use. Larger pieces of equipment that directly affect your business’s ability to make money can be written off on tax returns based on their depreciation. [Source](#)

Filing status. One of four tax ranks determined by your marital status, dependents and the way you file your tax return (single; married filing jointly, married filing separately or head of household). Filing status determines your tax rates and eligibility for tax benefits. [Source](#)

Gross income. The sum of everything you earn in a year before accounting for taxes or other deductions. [Source](#)

Keogh plan. A tax-deferred pension plan available to self-employed professionals or unincorporated businesses for retirement savings. [Source](#)

Net operating loss. The excess of business expenses over income. A business may apply a net operating loss to get a refund of past taxes (or reduction of future taxes) by carrying it back to profitable years as an additional deduction (or by carrying it forward as a deduction in future years). [Source](#)

Start-up and organizational costs. The IRS allows certain tax deductions in three categories of business startup costs:

- **Creating the business.** The cost of investigating the creation of a business, including feasibility studies, cost of market and product analysis, surveying competition, etc.
- **Launching the business.** Costs related to getting your business operational, including recruiting, hiring and training employees, advertising and professional fees.
- **Business organization costs.** The cost of setting up your business as a legal entity, including state and legal fees, accounting fees and expenses. [Source](#)

Taxable income. Your gross income after it's been reduced by allowable adjustments, deductions and exemptions. It's the final amount of income you use to calculate how much you owe in taxes. [Source](#)

Tax credit. The amount of money a taxpayer is able to subtract from taxes owed to the government. The value depends on the nature of the credit; there are different ones for businesses and individuals. [Source](#)

Tax deductions. Expenses the IRS allows you to subtract from your AGI to calculate your taxable income. Usually, the lower your income, the lower your tax bill. The IRS offers all filers a standard deduction amount. [Source](#)

Common Tax Forms for Small Businesses

1099-MISC. A type of form used by the Internal Revenue Agency (IRS) to ensure people properly report their income. When you provide \$600 or more in services to another company, the company's owner must report the total amount paid on a 1099-MISC. The IRS matches the income reported on your tax return to the 1099 forms they receive from your clients. [Source](#)

Form 1040, Schedule C (IRS). A tax form for sole proprietors to fill out to claim your profit or loss from business activities. [Source](#)

W-8BEN (U.S. tax form for Canadian businesses). If you're a Canadian sole proprietor who earns profits from working for U.S. businesses, your U.S. income is not taxable as long as you pay tax on that income to Canada. The W-8BEN is the form that will allow you to make the necessary declaration. [Source](#)

W9 (U.S. tax form). A type of form companies use to ensure they have accurate information for preparing 1099-MISC. A W9 asks for personal information including your name, address and tax ID number. [Source](#)



Bonus
chapter

Understand Marketing Terminology

Accountants and other financial wizards aren't the only ones to have their own language.

Marketers have a vocabulary all their own.

Your small business may not be concerned with analytics, marketing strategies including digital measurements yet, but it's important to understand what these terms mean. At the very least, you'll want to be able to have knowledgeable conversations with others business owners in your industry.



Here are some common marketing terms:

Average revenue per user (ARPU). The revenue generated (on average) by each active person using your service. [Source](#)

A/B testing. The process of comparing two variations of a single variable to determine which performs best to help improve marketing efforts. [Source](#)

B2B (Business-to-business). Describes companies that sell directly to other businesses. [Source](#)

B2C (Business-to-consumer). Describes companies that sell directly to consumers. [Source](#)

Bounce rate. The percentage of people who land on one of your website's pages and leave without clicking on anything else or navigating to any other pages on your site. [Source](#)

Call to action (CTA). An instruction to the audience designed to provoke an immediate response, e.g. "Call now!" "Visit a store!" [Source](#)

Churn rate. The percentage of customers who subscribe or use a service and then discontinue their subscription within a given time period. To grow your business, your new customers need to exceed the churn rate. [Source](#)

Click-through rate. The percentage of your audience that advances from one part of your website to the next step of your marketing campaign. [Source](#)

Conversion rate. The percentage of prospective customers who take a specific action you want, e.g. fill out an online form, call or email your business, make an appointment, etc. [Source](#)

Cost per lead. A marketing metric that measures how cost-effective your marketing campaigns are when it comes to generating new leads, e.g. if you spent \$1,000 on a pay-per-click campaign and 10 users convert to leads, your cost per lead is \$100. [Source](#)

Customer acquisition cost (CAC). The sum of all marketing and sales expenses (including salary and overhead costs) over a given period divided by the number of new customers added during that same period. [Source](#)

Engagement rate. A popular social media metric used to describe the amount of interaction (e.g. likes, shares, comments) that a piece of your content receives. [Source](#)



Lifetime value (LTV). The lifetime value of a customer can be calculated by projecting the revenue that customer will generate during their lifetime (as your customer) minus churn rate and gross margin. You can also calculate LTV by annual recurring revenue and annual churn. [Source](#)

LTV:CAC. The lifetime value/customer acquisition cost ratio helps you determine how much you should be spending to acquire a customer. Calculate it by dividing the projected lifetime value of a customer by the customer acquisition cost, e.g. if your LTV is \$3,000 and your CAC is \$1,000, then your LTV:CAC ratio would be 3:1. [Source](#)

Marketing funnel stages. A system that helps track the stages customers travel through to eventually make a buying decision, including:

- Top of funnel stage. Spread awareness, educate prospects and create brand buzz for your service.
- Middle of funnel stage. When a customer moves beyond awareness, they enter the consideration stage during which you can build a deeper relationship with them. You'll know more about them so you can provide specific solutions to their problems.
- Bottom of funnel stage. This is the conversion stage when the customer understands the value of your product and you can start talking about why your service is better than others and why it's perfect for them.

Native advertising. A type of online advertising that takes the form of the platform it appears on. Its purpose is to make ads feel less like ads, and more like part of the conversation, e.g. usually a piece of sponsored content that looks and feels like its editorial environment, such as an advertorial or Facebook ad. [Source](#)

Monthly recurring revenue (MRR). Income that your business can reliably anticipate every 30 days. It's an important metric for subscription-based businesses which rely on recurring revenue. [Source](#)

Conclusion

You don't need to be a CPA (or want to be one) to have a strong grasp of your business's financial landscape.

When you understand some of the basic tenets of the accounting, tax and marketing worlds you can communicate more effectively with business advisors, including accountants, bookkeepers, lawyers and marketing coaches.

And when you make some of these concepts part of your vocabulary, your world will open up and lead to business insights not available to the 40 per cent of financially illiterate small business owners.

Carpe diem!





AHHHHHH-COUNTING?

Try FreshBooks Instead

Sign Me Up for Free

