| **Term** | **Example** | **Explanation** | **Calculation example** |
| --- | --- | --- | --- |
| **Annual Percentage Rate (APR)** | 19.67% | A figure that incorporates all related fees and charges of a loan. It provides a more realistic (and almost always significantly higher) cost of borrowing. In the USA and Europe, banks and credit card companies are required by law to show the APR in all advertising and promotional material for their lending products. | Amount borrowed = $10,000  Period of loan = 36 months or 3 years  Interest rate = 12%  Interest cost per year = $10,000 x 12% = $1,200  Arrangement fee payable at start $500  Payment protection insurance = $50 per month.  Total repayment = $10,000 + ($1,200 x 3) $3600 + $500, + ($50 x 36) $1,800 = $15,900  Annual repayment = $15,900/3 = $5,300  Principal repaid = $10,000 / 3 = $3,333  Annual interest payment = $5,300 - $3,333 = $1,967  APR = $1,967/$10,000 = 19.67% |
| **Base rate** | 10.00% | This is the lending rate for banks, usually set by a country's central bank. Although the rate is only available to banks, it is often used as a basis for calculating lending rates to businesses and the general public and is usually shown as 'Base rate plus' (e.g. base plus 5% would mean an interest rate of 7.5% where the base rate was 2.5%). |  |
| **Breakeven point** | 20,000 units | The volume of units you have to sell before all direct costs are covered. |  |
| **Credit terms** | 30 days net | These are the terms agreed upon between a seller and buyer where the goods or services are to be provided before payment is made. These are usually described in the number of days that payment must be made by and might include a reference to an early payment discount or late payment penalty. |  |
| **Creditors** |  | People and companies that are owed money by the business. |  |
| **Debtors** |  | People and companies that owe money to the business. |  |
| **EBIT** | $5,000 | Earnings before Interest and taxation. This figure shows how much profit (or earnings) have been generated from the ordinary operations of the business. It excludes interest payments for borrowing and taxation payments because they are set externally and not controlled by business operations. |  |
| **EBITDA** | $5,800 | As above, but calculation also excludes depreciation and amortization charges because they are notional expenses and do not represent actual money transfers. |  |
| **Effective tax rate** | 23% | The tax rate expressed in percentage terms of the actual tax due in a year divided by the value of profit before tax for that year. This is used to compare businesses in a tax regime that uses variable tax rates to increase the tax paid as profits increase. | Country A Tax rates = First $5,000 profit, tax rate = 20%. Above $5,000 profit, tax rate = 25% Company A Profit = $7,000  Tax due = $5,000 x 20% = $1,000 + $2,000 x 25% = $500. Total Tax due = $1,500 Company B Profit = $15,000  Tax due = $5,000 x 20% = $1,000 + $10,000 x 25% = $2,500. Total Tax due = $3,500. Company A Effective tax rate = $1,500 / $7,000 = 21.4% Company B Effective tax rate = $3,500 / $15,000 = 23.3% |
| **Gross profit** | $10,000 | The difference between the $ value of sales and the direct cost of those sales. | Sales value = $50,000. Cost of goods = $40,000. Gross profit = $50,000 -$40,000 = $10,000. |
| **Interest rate** | 12% | The amount that is charged for borrowing. Usually expressed as a percentage per year, month, or day. |  |
| **Loan Principal** | $10,000 | The actual amount borrowed. |  |
| **Margin** | 20% | The amount of gross profit included in a sales price. | Sales price = $100  Mark=up = gross profit = $20. Margin = $20 as a percentage of $100 = $20/$100 = 20% |
| **Markup** | 25% | The amount added to the cost of the goods sold to arrive at the sales price. | Cost of goods/service = $80  Mark-up = 25%. 25% of $80 = $20  Sales price = $80 + $20 = $100 |
| **Net Present Value (NPV)** | $6,805.00 | The value today of a fixed amount in the future. Assumes that money loses value over time due to inflation and other factors. To put another way, NPV shows the equivalent value today of a payment to be made in the future - see example. | A payment of $10,000 is required in 5 years’ time. The assumed rate of inflation (discount rate) is 8% per year. It is equivalent to paying roughly $6,805 today |
| **Net profit** | $5,000 | The difference between the $ value of sales and the direct cost of those sales less any indirect or overhead costs. |  |
| **Net worth** |  | The difference between the total value of business assets, less the value of all liabilities and long term borrowings. It is equal to the value of the owners’ investment and the cumulative value of retained profits. It gives a measure of credit worthiness and is often used by investors as a guide to how well a business has been managed. |  |
| **NPV Discount Rate** | 8% | The rate at which money devalues each year due to inflation and other factors. |  |
| **Outsourcing** |  | When a business chooses to contract an outside provider to perform a particular function rather than using employees. Common functions that can be outsourced are payroll, marketing, cleaning, and buildings maintenance. |  |
| **Profit margin** | 10% | The amount of net profit included in the sales price. | Calculation as above, but also deduct $10 for indirect costs.  So, gross profit = $20, less indirect costs of $10 = $10  Profit margin + $10 as a percentage of $100 = $10/$100 = 10% |
| **Return on capital employed (ROCE)** | 7% | The amount of profit generated by the business as a percentage of the value of the capital invested in the business. Calculated as Profits before tax divided by the value of total assets less liabilities due in the next year (current liabilities). |  |
| **Return on Investment (ROI)** | 9% | The return provided to investors in your business. Calculated as the interest or dividends they receive divided by their investment plus any other costs of that investment. |  |
| **Tax rate** | 25% | The rate of tax set by the tax authorities in your country of operations. |  |
| **Working capital** |  | This is the amount of cash plus amounts receivable from debtors a business has in excess of the amounts it has to pay to lenders and creditors in the short term (e.g. 3 months). |  |