

Financial Literacy 101:

10 Key Terms You Should Know

Asset

Any resource owned by an individual or corporation that is expected to provide **future economic benefits**, classified into categories such as current, fixed, and intangible.

Liability

Liabilities are **obligations or debts** that a company or individual owes to others. They are settled over time through the transfer of economic benefits, including money, goods, or services.

Balance sheet

A balance sheet is a financial statement that provides a snapshot of a company's financial condition at a **specific point in time**. It details the company's assets, liabilities, and shareholders' equity. The balance sheet is fundamental for assessing a company's liquidity, financial health, and capital structure.

Cash Flow

Cash flow is the total amount of money being transferred into and out of a business. It is a crucial measure of a company's financial health, indicating its ability to generate sufficient cash to maintain operations, invest in the business, and meet financial obligations. There are three main types: **operating cash flow** (from core operations), **investing cash flow** (from investments in assets), and **financing cash flow** (from borrowing and repaying debt).

Audit

An audit is a **systematic review** and examination of a company's financial statements and records by an independent auditor. The purpose is to ensure the **accuracy and fairness** of the financial reporting and to check for compliance with accounting standards and regulations. Audits provide stakeholders with confidence in the integrity of financial information.

Accrual Basis

An accounting method where revenues and expenses are recorded when they are **earned or incurred**, regardless of when the cash transactions occur, providing a more accurate reflection of a company's financial position.

Amortize

The method of gradually **writing off** the initial cost of an asset over its useful life. For example, spreading the cost of a major expenditure like machinery over several years to match expense with revenue generation.

Bond

A bond is a **fixed-income security** representing a loan made by an investor to a borrower, usually corporate or governmental. The bond includes the terms of the loan, such as the interest rate (coupon rate), and the time at which the loaned funds (principal) must be returned (maturity date). Bonds are used by entities to raise capital and are considered safer investments compared to stocks.

Capital gain

Capital gain is the profit that results from selling an **asset** for **more than its purchase price**. This can occur with various types of assets, including stocks, bonds, real estate, and other investments. Capital gains are subject to taxation, but the rates can vary based on the holding period and the type of asset.

Convertible security

Convertible securities are financial instruments, such as bonds or preferred shares, that can be converted into a predetermined number of **common shares**. This conversion can be advantageous to investors if the company's stock performs well, offering potential for capital appreciation while providing fixed income or dividends until conversion.

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✉ support@treelife.in

☎ +91 99301 56000 | +91 22 6852 5768

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