
Professional Certificate in HR Budgeting

Financial Analysis for HR Professionals

Financial Analysis for HR Professionals Glossary

A

1. **Accrual Accounting:** An accounting method that records revenues and expenses when they are incurred, regardless of when cash is exchanged. This method provides a more accurate representation of a company's financial performance.
2. **Asset:** Anything of value that a company owns, which can be tangible (such as equipment or property) or intangible (such as patents or goodwill).
3. **Accounts Payable (AP):** The amount of money a company owes to its suppliers for goods or services purchased on credit.
4. **Accounts Receivable (AR):** The amount of money owed to a company by its customers for goods or services provided on credit.
5. **Amortization:** The process of spreading the cost of an intangible asset over its useful life. It is similar to depreciation for tangible assets.

B

6. **Benchmarking:** The process of comparing a company's performance metrics to those of its competitors or industry standards to identify strengths and weaknesses.
7. **Balance Sheet:** A financial statement that provides a snapshot of a company's financial position at a specific point in time, showing its assets, liabilities, and equity.
8. **Budget:** A financial plan that outlines a company's expected revenues and expenses over a specific period, typically a year. It serves as a roadmap for financial decision-making.
9. **Break-even Analysis:** A financial calculation to determine the level of sales needed to cover all costs and reach the point where total revenue equals total expenses.
10. **Business Intelligence (BI):** Tools and technologies that help HR professionals analyze and interpret complex data to make informed business decisions.

C

11. Cash Flow: The movement of cash in and out of a business, including operating, investing, and financing activities. It is crucial for assessing a company's liquidity and financial health.

12. Cost-Benefit Analysis: A method used to compare the costs of a particular course of action with the benefits it is expected to provide. This analysis helps HR professionals make informed decisions.

13. Capital Expenditure (CapEx): Funds used by a company to acquire, upgrade, or maintain physical assets such as property, equipment, or technology.

14. Capital Budgeting: The process of evaluating and selecting long-term investment projects that align with a company's strategic goals and provide a positive return on investment.

15. Cost of Goods Sold (COGS): The direct costs associated with producing goods or services, including materials, labor, and overhead expenses.

D

16. Depreciation: The allocation of the cost of a tangible asset over its useful life. This accounting method reflects the gradual wear and tear of assets and helps in determining their current value.

17. Debt-to-Equity Ratio: A financial metric that compares a company's total debt to its shareholders' equity, indicating its leverage and financial risk.

18. Dividend: A portion of a company's profits distributed to its shareholders as a return on their investment.

19. DuPont Analysis: A method of decomposing return on equity (ROE) into its component parts to assess a company's performance and identify areas for improvement.

20. Discounted Cash Flow (DCF): A valuation method that estimates the present value of future cash flows to determine the intrinsic value of an investment.

E

21. Earnings Before Interest and Taxes (EBIT): A measure of a company's operating profitability, calculated by subtracting operating expenses from revenues.

22. Earnings Per Share (EPS): A financial metric that indicates the portion of a company's profit attributable to each outstanding share of common stock.

23. Equity: The value of an owner's interest in a company, calculated as assets minus liabilities. It represents the residual claim on a company's assets after deducting its debts.

24. Expense: The cost incurred by a company in generating revenue, including salaries, rent, utilities, and

other operational costs.

25. External Benchmarking: Comparing a company's performance metrics with those of other companies in the same industry or sector.

F

26. Financial Statement: Reports that summarize a company's financial performance and position, including the income statement, balance sheet, and cash flow statement.

27. Fixed Costs: Expenses that remain constant regardless of the level of production or sales, such as rent, insurance, and salaries.

28. Forecasting: The process of predicting future trends and outcomes based on historical data, market analysis, and other relevant information.

29. Free Cash Flow (FCF): The cash generated by a company after accounting for capital expenditures and working capital requirements. It is a key measure of financial performance.

30. Financial Ratio: A quantitative analysis tool used to evaluate a company's financial performance, liquidity, solvency, and efficiency.

G

31. GAAP (Generally Accepted Accounting Principles): Standard accounting rules and guidelines that companies must follow when preparing financial statements.

32. Gross Margin: The percentage of revenue that exceeds the cost of goods sold, indicating a company's ability to generate profit from its core business activities.

33. Goodwill: An intangible asset that represents the excess of the purchase price of a company over the fair value of its identifiable net assets.

34. General Ledger: A complete record of a company's financial transactions, organized by accounts and used to prepare financial statements.

35. Going Concern: The assumption that a company will continue to operate indefinitely and meet its financial obligations in the foreseeable future.

H

36. Human Capital: The knowledge, skills, abilities, and experience of a company's employees, considered a valuable asset for achieving business objectives.

37. Horizontal Analysis: A financial analysis method that compares financial data over multiple periods to assess trends and changes in performance.

38. HR Budgeting: The process of allocating financial resources to HR activities, such as recruitment, training, compensation, and employee development.

39. Hurdle Rate: The minimum rate of return required by a company to undertake a capital investment project, ensuring that the project generates value for shareholders.

40. HR Analytics: The use of data analysis and statistical techniques to improve HR decision-making and drive strategic initiatives within an organization.

I

41. Income Statement: A financial statement that summarizes a company's revenues, expenses, and profits over a specific period, providing insights into its operational performance.

42. Internal Rate of Return (IRR): A financial metric used to evaluate the profitability of an investment project by calculating the discount rate that makes the net present value zero.

43. Inventory Turnover: A measure of how efficiently a company manages its inventory by comparing the cost of goods sold to the average inventory level.

44. Intangible Asset: Non-physical assets such as patents, trademarks, copyrights, and goodwill that have value but lack a physical form.

45. Investment: The allocation of financial resources to assets or projects with the expectation of generating future income or profit.

J

46. Job Costing: A method of allocating costs to specific jobs or projects to determine their profitability and accurately price products or services.

47. Journal Entry: A record of a financial transaction in a company's accounting system, showing the debit and credit entries to maintain the balance of accounts.

48. Just-in-Time (JIT) Inventory: A production strategy that aims to minimize inventory levels by receiving goods only when needed, reducing storage costs and waste.

49. Job Order Costing: A costing method used to track the costs of manufacturing a unique product or service based on the specific requirements of a customer.

50. Joint Venture: A business arrangement in which two or more parties collaborate on a specific project or

venture, sharing risks, costs, and profits.

K

51. Key Performance Indicator (KPI): Quantifiable metrics used to evaluate the success of an organization, department, or individual in achieving strategic objectives.
52. Knowledge Management: The process of capturing, sharing, and applying knowledge within an organization to improve decision-making, innovation, and performance.
53. Kurtosis: A statistical measure that indicates the shape of a distribution's tail relative to its peak, providing insights into the distribution's symmetry and outliers.
54. Knowledge Worker: An employee whose primary role involves creating, analyzing, or sharing knowledge to drive organizational performance and innovation.
55. Key Ratio Analysis: The process of evaluating a company's financial performance by analyzing key financial ratios such as profitability, liquidity, and solvency.

L

56. Labor Cost: The total cost incurred by a company to compensate its employees, including wages, benefits, payroll taxes, and other related expenses.
57. Leverage: The use of debt or borrowed funds to finance operations or investments, magnifying returns but also increasing financial risk.
58. Liquidity: The ability of a company to meet its short-term financial obligations using its current assets, indicating its financial stability and cash flow management.
59. Long-Term Debt: Borrowed funds that must be repaid over a period exceeding one year, typically used to finance capital investments or expansion projects.
60. Market Capitalization: The total value of a company's outstanding shares of stock, calculated by multiplying the current share price by the number of shares outstanding.

M

61. Management Accounting: The process of preparing financial information and analysis for internal decision-making, planning, and control within an organization.
62. Margin Analysis: A financial analysis technique that evaluates the profitability of individual products, services, or business units based on their contribution margins.

63. Merger and Acquisition (M&A): The consolidation of companies through the purchase, sale, or combination of assets to achieve strategic growth or operational synergies.

64. Net Income: The total profit earned by a company after deducting all expenses, taxes, and interest from its revenue, also known as the bottom line.

65. Net Present Value (NPV): A financial metric that calculates the present value of future cash flows generated by an investment, helping to assess its profitability.

N

66. Non-Financial Performance Metrics: Indicators used to evaluate an organization's performance that are not directly related to financial outcomes, such as customer satisfaction or employee engagement.

67. Net Profit Margin: A financial ratio that measures a company's profitability by comparing its net income to its total revenue, indicating how efficiently it generates profit.

68. Net Worth: The value of assets owned by an individual or company after deducting liabilities, representing the equity or ownership interest in the entity.

69. Normal Distribution: A bell-shaped probability distribution in which data points are symmetrically distributed around the mean, with most values clustering near the average.

70. Non-Operating Income: Revenue generated by a company that is not directly related to its core business activities, such as investment income or gains from asset sales.

O

71. Operating Expenses: The costs incurred by a company in its day-to-day operations, including salaries, rent, utilities, and administrative expenses.

72. Operating Income: The profit generated by a company from its primary business activities, calculated by subtracting operating expenses from operating revenues.

73. Overhead Costs: Indirect expenses that are necessary to support a company's operations but cannot be directly attributed to a specific product or service.

74. Operating Cash Flow (OCF): The cash generated by a company's core business activities, excluding financing and investing activities, providing insights into its operational efficiency.

75. Outsourcing: The practice of contracting certain business functions or processes to external service providers to reduce costs, improve efficiency, or access specialized expertise.

P

76. Profit and Loss Statement: Another term for the income statement, which shows a company's revenues, expenses, and net income over a specific period.

77. Payroll: The total amount of compensation paid by a company to its employees, including salaries, wages, bonuses, and benefits.

78. Payback Period: The time required for an investment to recoup its initial cost through cash flows, indicating the speed at which the investment generates returns.

79. Present Value: The current worth of a future cash flow or series of cash flows, discounted at a specific rate to account for the time value of money.

80. Profit Margin: A financial ratio that measures a company's profitability by comparing its net income to its total revenue, indicating its efficiency in generating profit.

Q

81. Quantitative Analysis: The use of numerical data and statistical methods to analyze and interpret financial information, enabling more accurate decision-making.

82. Quick Ratio: A financial ratio that measures a company's ability to cover its short-term liabilities with its most liquid assets, excluding inventory.

83. Quality Costs: The expenses incurred by a company to prevent, detect, and correct defects or errors in its products or services, ensuring high quality standards.

84. Qualified Retirement Plan: A tax-advantaged retirement savings plan that meets specific requirements set by the Internal Revenue Service (IRS) to provide benefits to employees.

85. Quarterly Earnings Report: A financial statement released by a company every three months, summarizing its financial performance during the quarter.

R

86. Return on Investment (ROI): A financial metric that measures the profitability of an investment by comparing the return generated to the cost of the investment.

87. Revenue: The total income generated by a company from its core business activities, including sales, services, and other sources of income.

88. Risk Management: The process of identifying, assessing, and mitigating risks to minimize potential losses and protect an organization's assets and reputation.

89. Ratio Analysis: The evaluation of a company's financial performance using various ratios that compare

different aspects of its operations, profitability, and solvency.

90. Regression Analysis: A statistical technique used to identify and quantify the relationship between two or more variables, enabling prediction and trend analysis.

S

91. Strategic Planning: The process of defining an organization's long-term goals and objectives, as well as the strategies and actions needed to achieve them.

92. SWOT Analysis: A strategic planning tool that assesses a company's strengths, weaknesses, opportunities, and threats to develop effective business strategies.

93. Securities and Exchange Commission (SEC): A government agency responsible for regulating the securities industry, enforcing securities laws, and protecting investors.

94. Stock Options: Rights granted to employees to purchase company stock at a specified price within a certain period, providing them with an ownership stake.

95. Stock Split: A corporate action in which a company divides its existing shares into multiple shares, reducing the share price while increasing the number of shares outstanding.

T

96. Time Value of Money: The principle that a dollar received today is worth more than a dollar received in the future due to its potential earning capacity.

97. Total Cost of Ownership (TCO): The comprehensive cost associated with owning and operating an asset over its entire life cycle, including acquisition, maintenance, and disposal costs.

98. Throughput Accounting: A management accounting approach that focuses on maximizing the flow of products or services through a system to increase profitability.

99. Treasury Stock: Shares of a company's own stock that have been repurchased by the company and are held in its treasury, reducing the number of outstanding shares.

100. Time Series Analysis: A statistical technique that examines patterns, trends, and relationships in sequential data points over time, enabling forecasting and decision-making.

U

101. Unearned Revenue: Income received by a company in advance for goods or services that have not yet been delivered, requiring the company to fulfill its obligations in the future.

102. Unit Cost: The average cost of producing one unit of a product or service, calculated by dividing total production costs by the number of units produced.

103. Usury: The practice of charging excessively high interest rates on loans, often considered unethical or illegal depending on the jurisdiction.

104. Utilization Rate: A metric used to measure the efficiency of resources, such as employees or equipment, by comparing actual usage to available capacity.

105. Underwriting: The process by which financial institutions assess and assume the risk of insuring or investing in securities, loans, or other financial instruments.

V

106. Variable Costs: Expenses that fluctuate with changes in production or sales volume, such as raw materials, direct labor, and sales commissions.

107. Valuation: The process of determining the intrinsic value of an asset, investment, or company based on various financial metrics, market conditions, and future prospects.

108. Variance Analysis: A technique used to compare actual financial performance to budgeted or expected performance, identifying differences and their causes.

109. Vertical Analysis: A financial analysis method that compares each line item on a financial statement to a base item, such as total revenue or total assets.

110. Value Chain: The series of activities that a company performs to deliver