40 Business Terms Farrier's Need to Understand
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Accounts Payables – are bills to be paid as part of the normal course of business. Until the invoice is paid, the amount due is known as an accounts payable.

Accounts Receivable (AR) – Debt or money owed to you from sales of products or service.

Accrual-based accounting – a type of business accounting method, which assumes there will be bills to be paid (known as accounts payable) and/or sales made that will be paid later (known as sales on credit). You report income when it is earned. The opposite is the Cash-Basis accounting method.

Assets – Property of your farrier business, including cash, inventory, equipment, etc. Assets are any possessions that have value in an exchange or trade. The IRS defines assets as it has to do with the taxes when you buy a piece of equipment. If you call a purchase an expense then you can deduct it from taxable income. If you call it an asset you can't deduct it however you can list it on your financial statement among the assets.

Bill –is an acknowledgment that a specified sum of money is due for goods or services. A bill marked as paid becomes a receipt.

Brand – A name, term, sign, symbol, design, or a combination of all used to uniquely identify and differentiate a company's goods and services from a competitor.

Break-even point – The actual sales amount that your farrier business needs to earn in order to equal its expenses or cost so as to not lose or make money.

C Corporation (C Corp) – is the classic legal entity of the vast majority of successful companies in the United States. Most lawyers would agree that the C Corp is the structure that provides the best shielding from personal liability for owners, and provides the best non-tax benefits to owners. This is a separate legal entity, different from its owners, which pays its own taxes. Most lawyers usually agree that for a company that has ambitions of raising major investment capital and eventually going public, the C corporation is the standard form of legal entity. A C Corp is not a normal farrier business identity.

Cash Basis – a type of business accounting method that doesn't use the standard accrual accounting. It records only cash receipts and cash spending, without assuming sales made on account (known as sales on credit) or bill to be paid as part of the normal course of your business (known as accounts payable). You report income when cash is received. The opposite is the accrual based accounting method.

Cash sales – Sales made in cash, or with credit cards, or by check. The opposite of sales on credit which are sales made on account or to be paid later.

Doing Business As (DBA) – DBA stands for "Doing Business As," which is a company name, also commonly called a fictitious business name. When a sole proprietor operates a company using any name except his or her own given name, then the DBA or ficticious business name registration establishes the legal ownership to satisfy banks, local authorities, and customers. You can usually obtain this registration through the county government, and the cost is no more than a small registration fee plus a required newspaper ad, for a total of less than $100 in most states.

Depreciation – is an accounting and tax concept used to estimate the loss of value of assets over time. For example, farrier trucks and tools depreciate with use.

Dividends – money distributed to the owners of a business as profits.

Earnings – also known as income or profits. It is sales less costs of sales and expenses.

Equity – is the difference between assets and liabilities.

Expense – is the amount you spend or consume. In business accounting, expenses are deductible against taxable income. Common expenses are rent, salaries, advertising, travel, etc. Questions arise because some farriers have trouble distinguishing between expenses and purchase of assets. When you purchase equipment, if you decide to call it an expense, then you can deduct that amount from your taxable income, so it reduces taxes.

Fiscal Year – is an accounting practice that allows the accounting year to begin in any month. Fiscal years are numbered according to the year in which they end. For example, a fiscal year ending in February of 1992 is Fiscal 1992, even though most of the year takes place in 1991.

Gross Margin – is the difference between total sales revenue and total cost of goods sold. Gross margin can be expressed in dollar or percentage terms.

Gross Margin Percent – is the gross margin divided by sales, displayed as a percentage..

Income Statement – is also called a Profit and Loss statement.

Interest expense – is interest paid on debts. Interest expense is deducted from profits as expenses and is either long-term or short-term interest.

Inventory – are goods in stock, either finished goods or materials to be used to manufacture goods (shoes, pads, welding rod, rivets, etc.).

Invoice - A nonnegotiable paper issued by a seller to you the buyer. It identifies both the parties and lists, describes, and quantifies the items sold, shows the date of shipment and mode of transport, prices and any discounts, and delivery and payment terms. When it is signed by the seller, an invoice serves as a demand for payment and becomes a document of title when paid in full.

Liabilities – are debts or money that must be paid. Usually debt on terms of less than five years is called short-term liabilities and debt for a longer times is called a long-term liability.

Limited Liability Company (LLC) – is a form of business organization combining elements of partnerships and corporations, in which both managing and non-managing partners are protected from liability to some degree, and have a different tax liability than in a corporation. LLC's are different for different states, with some real advantages in some states that aren't relevant in others. In general, an LLC has to be missing two of the four characteristics of a corporation; limited liability, centralized management, continuity of life, and free transferability of ownership interest.

Market – are prospective customers willing and able to purchase your services.

Marketing – is the planned activities (advertising, events, etc) designed to positively influence the perceptions and purchase choices of individuals.

Marketing Plan – is a written document containing description and guidelines for your farrier business as well as marketing strategies and tactics for how you are going to offer products and services over the defined planning period, often one year.

Materials – are items involved in the assembly or manufacture of goods you sell (shoes, pads, rivets, propane, etc.) Materials are included in the cost of sales.

Mission Statement – is a statement that captures your farrier business's purpose, customer orientation and business philosophy.

Net Profit – is the same as earnings or net income which is income less taxes and interest.

Operating Expenses – are expenses incurred in conducting your normal farrier business. Operating expenses may include wages, salaries, administrative and research and development costs, but excludes interest, depreciation, and taxes.

Payables – short for Account Payables.

Point of Sale – a term used in business and credit card processing companies to indicate the location of sale where your customer pays you for your service.

Positioning – is the way you go about offering an image in your farrier business that provides a unique and valued place in the customer's mind relative to your competition. A product or service can be positioned on the basis of an attributes, benefits, showing up on time, price, or quality.

Profit or Loss Statement – is an income statement that shows sales, cost of sales, gross margin, operating expenses, and profits or losses. Gross margin is sales/income less cost of sales. A P&L (profit and loss) is gross margin less operating expenses and taxes. The result is profit if it's positive, loss if it's negative.

Receipt – is a written/printed acknowledgment that a specified sum of money has been received as an exchange for goods or services.

Receivables – short for Account Receivables.

S Corporation (S Corp) – is used for family and small business companies. The profits or losses go straight through to the S Corp owners, without being taxed separately first. In practical terms, this means that the owners of the farrier corporation can take their profits home without first paying the corporation's separate tax on profits, so those profits are taxed once for the S Corp owner. In most states an S Corp is owned by a limited number (25 is a common maximum) of private owners, and corporations can't hold stock in S Corps, just individuals.

Sole proprietorship – is the simplest form of business identity. Your farrier business is a sole proprietorship if you don't create a separate legal entity for it and use your own name as the business. If you decide not to use your own name, then you need to register for a DBA (Doing Business As) with your county government.