



OakfieldLeasing

“Celebrating 25 years in Equipment Leasing”

A-Z

JARGON BUSTER

Introduction

Applying for finance for your business can sometimes be a complicated operation, especially when dealing with large financial organisations or banks.

Not only do Oakfield Leasing take a 'common sense' approach to leasing, but we also try to make the process as simple and as quick as possible.

However, a number of our clients are new start businesses, whose proprietors/directors have never leased before. For anyone new to finance, even the learning curve to understand leasing can be tricky.

To make this process easier, we have developed this A - Z guide of finance terms to help prospective new lessees understand the entire process.

A

“asset”

An asset is a tangible or intangible item with a perceived or actual value owned by an individual or company. Assets can range from equipment to members of staff.

B

“balance sheet”

A balance sheet is a summary of financial activity over a given period.

“broker”

A party involved in the leasing contract who serve one or more functions, such as locating equipment to be leased, finding a lessee, working with the equipment manufacturer, securing the right finance for the customer

“budget”

A budget is a designated amount of capital set aside for a specific goal.

C

“capital”

Usually refers to a source of finance available to an individual or company.

“capital expenditure”

Capital expenditure is money spent by a company or organisation on purchasing fixed assets. This form of spending is only partly tax-deductible, depending on the type of equipment purchased. The alternative form of purchasing equipment is via “operational expenditure”.

“cashflow”

Cashflow refers to the amount of money being moved into and out of a business, referring specifically to the liquidity of the business.

“credit lines”

Credit lines are different forms of financing, and can range from personal investment, professional investment (such as angel investors), bank investment, leasing, etc.

D

“depreciation”

The perceived devaluing of an asset after it has been purchased.

“deposit”

The amount of money used as an initial payment to act as a security on a loan.

“direct debit”

A form of recurring payments utilised by a number of companies to ensure regular, uninterrupted payments.

E

“end of lease”

The end of the period in which the lease contract is valid. Usually the end of the leasing contract has options for buying or upgrading the equipment leased.

F

“finance”

Finance is a mechanism whereby money is provided to an organisation, business, or individual, for commercial purposes.

“fixed assets”

Fixed assets are tangible or intangible assets purchased for long-term use, which are unlikely to be converted into short-term cash, such as equipment and buildings.

<i>“fixed cost”</i>	A fixed cost leasing contract consists of regular payments of which the amounts are fixed, allowing greater ability to budget appropriately.
<i>“fixed term”</i>	A fixed term leasing contract is one which is set over a fixed period of time (usually measured in months or years).
<i>“FLA”</i>	The Finance and Leasing Association.
<i>“franchise”</i>	A franchise is, in effect, a copy of an existing business which is licensed to the owner to copy the existing (and usually successful) business model. The usual example seen on high streets are “chain stores”.

G

<i>“gross profit”</i>	The gross profit of a sale is the sale figure minus the costs of goods and/or services included in the sale.
-----------------------	--

H

<i>“hire purchase”</i>	Sometimes called a “lease purchase”, usually a leasing contract wherein the lessee will become the owner of the leased equipment at the end of the lease term. The lessee does not become the legal owner of the asset until all terms and conditions of the agreement have been satisfied.
------------------------	---

I

<i>“initial rental”</i>	See “deposit”.
<i>“introducer”</i>	Someone who introduces one party to another. Can be a professional practice or equipment supplier.

L

<i>“lease”</i>	See “Leasing”.
----------------	----------------

<i>“lease period”</i>	The lease period is the duration in which the leasing contract will take effect.
<i>“leasing”</i>	Leasing is a contractual agreement where a leasing company (lessor) makes an asset it owns available for use by another party (a lessee), for a certain period of time and in exchange for payment.
<i>“lessee”</i>	An individual or business which has the right to use something of value, usually gained by a lease agreement with the actual owner of the property “the lessor”.
<i>“lessor”</i>	The owner of a property that is leased to the “lessee”.
<i>“liabilities”</i>	A liability is an obligation arising from a past or ongoing transaction or event, such as the borrowing of capital from banks or organisations.

M

<i>“mortgage”</i>	A type of loan secured against a property.
-------------------	--

N

<i>“net profit”</i>	The actual profit which is calculated by removing business/working expenses from the “gross profit” of a sale.
---------------------	--

O

<i>“operational expenditure”</i>	Operational expenditure, as opposed to “capital expenditure”, is money spent on the ongoing operation of a business or organisation. This type of spending has different tax deductible rules.
----------------------------------	--

<i>“overhead”</i>	The running cost of a business, including its premises, or operational costs.
-------------------	---

P

“P&L”

Initialism for “profit and loss account”.

“profit and loss account”

An end-of-financial-year summary showing the gross and net profit or loss of an organisation or business.

Q

“quote”

A document detailing a proposed agreement, outlining terms and costs.

R

“refinance”

Refinancing involves re-negotiating terms of an existing financing agreement, for many different potential reasons or benefits. Refinancing can be used to free up cash or re-negotiate contract term or cost.

“return on investment”

A return on investment is a financial measure of a company's earnings compared against the total earnings before interest, taxes, salaries, etc. are deducted. This figure is usually expressed as a percentage.

S

“small to medium enterprise”

A small to medium enterprise is a company whose number of employees falls below a certain limit. In Europe, SMEs are usually classified by having up to 250 personnel, although within the SME band there are 3 smaller sub-groups: Micro entities, Small companies, and Medium companies.

“SME”

Initialism for “small to medium enterprise”.

T

“tax deductible”

Tax deductible refers to the amount of money that can be deducted from taxable income, or the amount of tax to be paid. The amount of tax deductible benefit varies between “operational expenditure” and “capital expenditure”.

“term of the lease”

The duration in which the leasing contract will be in effect.

U

“underwriting”

The process of reviewing (performing searches, analysing external investment, affordability, fallback position, industry experience, etc.) an application with a view to offering credit approval.

“upgrade”

To replace part or all of the assets with that of newer or higher-specification assets, often while retaining the same or similar terms of the original leasing contract.

V

“vendor”

An equipment manufacturer or supplier.

“valuation”

An assessment made on the value of a property or asset.

W

“working capital”

The working capital is the amount of money a business uses in its day-to-day operations and functions, usually calculated by working out the current assets minus the current liabilities.

“working life”

The working life of an asset is its standard duration of expected operation, usually defined in terms of how long a fixed asset can be used for the purposes of earning money.