



BNP PARIBAS
LEASE GROUP

Finance and Leasing Glossary



A

Accounting insolvency

Total liabilities exceed total assets. A firm with a negative net worth is insolvent on the books.

Accounting liquidity

The ease and quickness with which assets can be converted to cash.

Accounts payable

Money owed to suppliers.

Accounts receivable

Money owed by customers.

Annual percentage rate (APR)

The periodic rate times the number of periods in a year. For example, a 1 % per month rate has an APR of 12%.

B

Base Rate:

The interest rate which banks and finance houses use to calculate interest charges on floating rate or base rate-rate linked loans or agreements. Base rates fluctuate from period to period in line with general level of interest rates. Each customer will have a margin added to the applicable base rate which will vary depending on the transaction involved.

Bank line

Line of credit that by a bank grants to a customer.

Bankruptcy

Inability to pay debts. In bankruptcy of a publicly owned entity, the ownership of the firm's assets is transferred from the stockholders to the bondholders.

C

Capital Allowances:

The amount of depreciation allowed by the UK Inland Revenue to be offset against taxable income.

Consumer Credit Act 1974:

Legislation introduced for the protection of consumers who enter financial arrangements. The Act currently affords protection to partnerships and sole traders as well as private individuals where lease rentals (inclusive of VAT) are £25,000 or less or, for loans and HP, where the balance financed is less than £25,000. The Act includes regulations for advertising, negotiations, quoting of rates and merchantable quality claims.

Contract Hire:

A lease agreement which normally also provides added value services, usually involving maintenance of the asset at predetermined minimum standards.

Capital expenditures

Amount used during a particular period to acquire or improve long-term assets such as property, plant, or equipment.

Capital gain

When a stock is sold for a profit, the capital gain is the difference between the net sales price of the securities and their net cost, or original basis. If a stock is sold below cost, the difference is a capital loss.

Capital gains tax

The tax levied on profits from the sale of capital assets.

Capital goods

Goods used by firms to produce other goods, e.g., office buildings, machinery, equipment.

Capital lease

A lease obligation that has to be capitalized on the balance sheet.

Cost of funds

Interest rate associated with borrowing money.

Current assets

Value of cash, accounts receivable, inventories, marketable securities and other assets that could be converted to cash in less than 1 year.

Current liabilities

Amount owed for salaries, interest, accounts payable and other debts due within 1 year.

D

Depreciation

A non-cash expense that provides a source of free cash flow. Amount allocated during the period to amortize the cost of acquiring long-term assets over the useful life of the assets.

E

Earnings before interest, taxes, depreciation, and amortization (EBITDA)

A financial measure defined as revenues less cost of goods sold and selling, general, and administrative expenses. In other words, profit before the deduction of interest, income taxes, depreciation and amortization expenses.

Earnings per share (EPS)

A company's profit divided by its number of outstanding shares. If a company earning £2 million in one year had £2 million shares of stock outstanding, its EPS would be £1 per share.

F

Finance Lease

A lease that confers substantially all of the risks and rewards of ownership to the lessee. Under such leases, the rentals can be construed to be payment for the asset on deferred terms. Typically, the rentals will reimburse the lessor with the full cost of acquisition of the asset and provide him with additional consideration for the finance that he is providing to the lessee. (Note that the actual, legal ownership of a leased asset never passes to the lessee).

Fiscal year (FY)

Accounting period covering 12 consecutive months over which a company determines earnings and profits. The fiscal year serves as a period of reference for the company and does not necessarily correspond to the calendar year.

G

Goodwill

Excess of purchase price over fair market value of net assets.

Gross profit

Sales minus the cost of goods sold.

Gross profit margin

Gross profit divided by sales.

Guarantor

A person who undertakes or gives a guarantee that a party to contract will perform its obligations.

H

Hire Purchase

An asset finance agreement under which the customer obtains legal title to the equipment once all finance repayments have been made. An option to purchase fee may also be payable, typically at a nominal level. Although legal title passes at the end of the term, for tax purposes, the customer is regarded as the owner from the outset.

L

Lease

A long-term rental agreement, and a form of secured long-term debt.

Lease rate

The payment per period stated in a lease contract.

Lessee

The customer who uses the leased equipment in return for payment of rentals.

Lessor

The owner of the leased asset, provided for the use of the lessee.

London Interbank Offered Rate (LIBOR)

The rate of interest that major international banks in London charge each other for borrowings in major currencies. Many variable interest rates in the many countries are based on spreads off LIBOR. By contrast with the bid rate LIBID quoted by banks seeking such deposits.

M

Market capitalization

Value of all outstanding shares. Calculated as shares times current market price. Capitalization is a measure of corporate size.

N

Net current assets

The difference between current assets and current liabilities, also known as working capital.

Net operating losses

Losses that a firm can take advantage of to reduce taxes.

Net profit margin

Net income divided by sales.

O

Off-balance-sheet financing

Financing that is not shown as a liability on a company's balance sheet. Includes operating leases, securitization of receivables. Are disclosed in footnotes.

Operating cash flow

Earnings before depreciation minus taxes. Measures the cash generated from operations, not counting capital spending or working capital requirements.

Operating Lease

Rentals can be tailored to suit your cash flow, for a period of hire to suit your requirements. Funding is off balance sheet, so leaving your gearing and liquid ratios unaffected. Risks and rewards of ownership lie with the lessor. The lessee cannot be liable for any residual value risks.

Operating profit (or loss)

Revenue from a firm's regular activities less costs and expenses and before income deductions.

P

Partnership

An agreement which exists between two or more parties in common, with a view to making profit. Each partner normally has unlimited liability for the debts of the partnership.

Peppercorn Rental

The nominal rental paid during the secondary period of a finance lease.

Pro forma statement

A financial statement showing the forecast or projected operating results and balance sheet, as in pro forma income statements, balance sheets, and statements of cash flows.

R

Renewal Option

An option to renew the lease at the end of the initial lease term upon payment of further rentals.

Residual or Residual Value

The projected value of equipment at the conclusion of the lease term.

Revolving line of credit

A bank line of credit on which the customer pays a commitment fee and can take and repay funds at will. Normally a revolving LOC involves a firm commitment from the bank for a period of several years.

S

Sales Aid Finance

A facility offered to manufacturers and suppliers of equipment that enables them to make it easier for their customers to buy their goods. Options offered by funders often include finance leasing, lease purchase and operating leasing. Also known as Vendor Finance.

T

Tangible asset

An asset whose value depends on particular physical properties. These include reproducible assets such as buildings or machinery and non-reproducible assets such as land, a mine, or a work of art.

W

Working Capital

Current assets less current liabilities. Working capital is the amount of money a business needs to keep in circulation to pay its bills and wages.

Y

Yield

Effectively, percentage measure of the gross return on net funds employed