

UNDERSTANDING FINANCIAL TERMINOLOGY

ACCRUAL BASIS

Income and expenses recorded when they are earned or incurred regardless of when the cash is received or paid. Provides the best picture of long-term financial health because it accounts for all earnings and obligations, not just those that have been settled in cash.

CASH BASIS

Income and expenses measured when received or paid. Transactions are noted when actual cash movement occurs. Provides a direct view of how much cash the business has at any given time. Commonly used for paying taxes.

GROSS REVENUE

Total income from all sources before any expenses are deducted.

NET REVENUE

Your "bottom line." Take your gross revenue and subtract all expenses directly associated with your projects, such as materials, labor, subcontractor or consultant fees, and other direct expenses, such as travel and printing.

DIRECT LABOR

Represents time charged to projects, whether invoiced or not, by everyone (including principals). This is the same as **direct salary**.

INDIRECT LABOR

Represents time charged to non-projected related activities by everyone (including principals). This is the same as **indirect salary**.

REIMBURSABLE EXPENSE

Project-related expenses that are invoiced to the client in addition to fees. Typically includes a markup percentage which is recognized as revenue.

DIRECT EXPENSE

Project-related expenses, including consultants that are not reimbursable regardless of contract type.

INDIRECT EXPENSE

General and administrative non-project related operating expenses. Costs for running the business, including rent, utilities, and salaries (indirect labor). Vital for long-term financial planning.

OVERHEAD RATE

The ratio of total **indirect expenses** to total **direct labor**. If the overhead rate is 1.75, every dollar spent on direct labor, requires an additional \$1.75 to cover the overhead necessary to support the business.

BREAKEVEN RATE

The overhead rate plus the unit 1.00 (for an hour of salary). If the overhead rate is 1.75, the breakeven rate is 2.75; for every \$1.00 of salary, the firm must earn \$2.75 just to break even.

UTILIZATION RATE

Direct labor expressed as a percentage of total labor. Critical for assessing staff productivity and project efficiency. For **individuals, use hours**, for the **firm, use dollars**.

REALIZATION RATE

The average hourly rate billed and collected for an employee's work, compared to their standard billable rate.

NET MULTIPLIER

Ratio of net operating revenue to total direct labor. Measures the profitability and efficiency of the firm's project work. Helps determine pricing strategies, value of the work and measuring efficiency of project management and labor utilization.

NET PROFIT

The money remaining after deducting all direct and indirect labor and indirect expenses, before any distributions made or taxes paid.

CURRENT EARNINGS

The net dollar amount after all distributions are made and all applicable taxes have been deducted.