

If you have read many of our articles pertaining to incorporating a business, forming an LLC, or about limited liability company formation, you may have noticed some unfamiliar terms. All professions have distinct vocabularies for improved communications. The business incorporation field is no different.

Without a business law background, terminology used within the clauses of LLC operating agreements, bylaws, resolutions, corporate minutes incorporation and formation documents can be confusing.

Even corporate kits and LLC packages contain forms with a certain amount of language which may need clarification. It can be helpful to have a place to double check your understanding of a term is accurate.

For this reason, this quick guide to frequently used words and phrases used in accounting, legal and corporate areas has been created.

Account: The separate record of an asset, liability, income, or expense of the company.

Accounting period: The specific time period covered by the financial statements of a company.

Accounting: The process for recording, summarizing; and interpreting the business financial records.

Accounting method: The method of recording income and expenses for a business. An accounting method can be either cash method or by accrual method.

Accounts receivable: A corporate asset. Money owed to the company by another. Income that the company expects to receive.

Accounts payable: A liability. Money owed by a company to another. Money that the company must pay to another.

Accrual method: A form of accounting whereby all income and expenses are counted when earned or incurred regardless of when the actual cash is received or paid.

Accrued income an expenses: Income and expenses that have been earned or incurred but has not yet been received or paid.

Acquisition: Securing a corporation by acquiring a majority of its outstanding shares, or by purchasing its assets.

Administrative dissolution: An involuntary dissolution of a corporation by a Secretary of State or Court of law as a result of a corporation's failure to comply with statutorily imposed requirements; usually the failure to file an annual report, maintain a valid Registered Agent, or pay a fee.

Advisory board of directors: Individuals who advise the elected board of directors. This board is usually nominated by the incorporators and is not bound by the duties imposed upon elected board members.

Agent: A person or entity authorized to act on the behalf of another. A corporation acts through its agents whether they are directors, employees, or officers.

Agent for service of process: A person or company with limited authority to receive service of process on the LLC or corporation.

Amendment: Any change to an original document.

Amended certificate of authority: A document certified by the state corporate agency to reflect a company has changed its certificate of authority.

Annual meeting: A meeting of shareholders or directors held on an annual basis. Usually, new directors are elected and other general business of the corporation or LLC is conducted.

Annual report: A yearly filing required by state government for corporations, and in some states, for LLC's. Annual reports list current directors, officers and financial information. Also, an annual statement of business and affairs furnished by a corporation to its shareholders.

Application for certificate of authority: The form filed to qualify a business entity to conduct affairs as a foreign company.

Articles of Incorporation: The organizational document filed in most states to start a corporation. The articles are filed with a state office to request the corporation be allowed to exist. Along with the corporate Bylaws, articles provide details of the company and its structure of business. Articles must conform with the laws of the incorporating state. Also referred to as a certificate of incorporation or corporate charter.

Articles of organization: The name of the formation document filed in most states to start a limited liability company. Articles of Organization are registered with the Secretary of State to request the LLC be permitted to exist. Articles of Organization reflect details of the LLC such as the name of the company, its owners and its registered address. Articles must conform with the laws where the LLC is formed. May also be referred to as articles of formation.

Assets: Everything a company owns, including money owed to the business, real estate, good will and personal property.

Assumed name: A name other than the corporation's legal name under which a company be known. Most states require registration of an affidavit of fictitious name if the company desires to conduct business under an assumed name. Frequently referred to as a trade name, fictitious name or "dba" (for doing business as").

Authorized shares or stock: The number of shares of stock a profit corporation is permitted to sell. Usually designated in the Articles of Incorporation, but may be authorized in the bylaws of a corporation.

Balance sheet: A financial statement depicting the financial status of a company by summarizing its assets and liabilities.

Blue sky law: Laws and regulations that govern the sale of securities.

Board of directors: The individuals with control of the general supervision of the corporation. Appointed by the shareholders, Directors in turn appoint officers of the corporation.

Bond: A debt secured by an interest in real estate or personal property. Bonds are frequently used by new LLCs and corporations as a way to raise revenue instead of issuing shares or membership interests.

Bookkeeping: The actual method of recording the figures in a companies' accounting records.

Business corporation act: A body of law passed by a state legislature to govern incorporation and corporate regulations. For each individual state, these laws provide the legal framework for the operation of corporations. The Articles of Incorporation and the By-Laws of a corporation must adhere to the specifics of state law

By-Laws: The internal rules that govern the management of the corporation. This document contains the procedures for holding meetings, appointments, elections and other management matters. If these conflict with the Articles of Incorporation, the provision in the Articles will be controlling.

C corporation: A corporate entity that is not classified as a Subchapter S-corporation or non profit corporation.

Capital: The actual money or property transferred to an LLC or Corporation for its operations.

Once in operation, capital also consists of accumulated profits. The net worth of the company. The ownership value of the business.

Capital expense: An expense for the purchase of a fixed asset; an asset with a useful life of over one year. Generally, must be depreciated rather than deducted as a business expense.

Capital stock: Initial ownership shares permitted to be sold by a corporation. See Authorized Stock.

Cash: All currency, coins and checks that a corporation, LLC or company has on deposit in a bank account or at hand

Cash method: An accounting method where income and expenses are not counted until the actual cash is received or paid.

Certificate of Incorporation: See Articles of Incorporation. Note, however, some states will issue a Certificate of Incorporation after the filing of the Articles of Incorporation.

Chart of Accounts: A listing of the types and numbers of the various accounts that a business uses for its accounting records.

Check Register: A running record of checks written, deposits made, and other transactions for a bank account.

Certificate of authority: A document issued by the state as evidence to conduct business within that state.

Certificate of good standing: A certificate issued by the Secretary of State to prove a corporation's existence is legally within compliance of state law. A Certificate of Good Standing generally designates the corporate name; that it is duly incorporated or authorized to transact business; that all fees, taxes and penalties owed the state have been paid; that its most recent annual report has been filed; and, that articles of dissolution have not been filed.

Certificate of incorporation: Also referred to as a corporate charter or Articles of Incorporation, but a certificate of incorporation may also be issued by a State office in separate format as evidence of a companies' existence.

Close corporation: Corporation with fewer than 50 stockholders and which has elected to be treated as a close corporation. Not all states have close corporation statutes. Close corporations will generally restrict the board of directors rights. Close corporations are generally smaller, family owned and operated businesses.

Closely-held corporation: Not a specific state-sanctioned type of corporation, but rather a designation of any corporation in which the stock is held by a small group of people or entities and is not publicly traded.

Common stock: The standard class of stock of a corporation that includes the right to vote the shares and the right to proportionate dividends as opposed to preferred stock. Common stock has no special voting rights or priority features over other shares issued by a corporation.

Consent Resolution: Any resolution signed by all of the directors or shareholders of a corporation authorizing an action, without the necessity of a meeting.

Consolidation: Combining two or more entities to create another. Such as two corporations may combine to form a new LLC.

Corporation: A business entity with limited liability protection permitted by state statute and owned by shareholders. Corporations are legal persons under the law.

Corporate indicator: A suffix of word required to be contained within a corporation's name to show that the company is a corporation with limited liability features. Examples of corporate indicators are: inc., corp. incorporated. Acceptable corporate indicators will vary by jurisdiction.

Corporate kit: a notebook or binder containing documents for administering a corporation. Usually the kit will include corporate minutes, sample bylaws, certificates of shares, ledgers and a mechanical seal.

Corporate seal: A mechanical device used to place an impression on a document to validate its authenticity. Contrary to popular belief, corporate seals are not required. Professionally prepared by laws will usually provide that a president and secretaries' signatures will constitute a valid seal.

Corporation: A legal person created under the authority of state law.

Corporation law: See Business Corporation Act - also referred to as corporate code.

Cost of Goods Sold: The amount that a business has paid for the inventory that it has sold during a specific period. Calculated by adding beginning inventory and additions to inventory and then deducting the ending inventory value.

Credit: In double-entry accounting, an increase in liability or income accounts or a decrease in

asset or expense accounts.

Cumulative voting: A voting right of shareholders that allows votes for directors to be spread among various nominees. This right protects the voting strength of minority shareholders. The amount of votes in cumulative voting is based on the number of shares held multiplied by the number of director positions to be voted on. A shareholder can allocate the total cumulative votes in any manner.

Current liabilities: Debts of a company that must be paid within one year.

Current assets: Cash and other liquid assets that can be consumed by a company within one year.

Current ratio: A method of determining the liquidity of a business. The ratio is calculated by dividing current assets by current liabilities.

Debit: In double-entry accounting, a decrease in liability or income accounts or an increase in asset or expense accounts.

Debt: A liability or dollar amount that a company owes.

Debt financing: An alternative to selling stock as a means of raising capital. Also see Bonds.

Derivative suit: A lawsuit filed by a shareholder on behalf of a corporation to protect the corporation from wrongs committed against it.

Directors: The persons appointed by a corporations' shareholders to manage the affairs of a corporation. Directors will appoint officers to oversee day to day operations.

Dissenters right: The shareholders right to have their shares evaluated and acquired by the corporation if the corporation engages in affairs without shareholder approval.

Dissolution: Methods by which a company concludes its business and liquidates. Dissolutions may be involuntary because of bankruptcy or credit problems or voluntary on the initiation of the directors or shareholders of a corporation. Dissolving or winding down an LLC or corporate entity to end the legal existence of the company. The formal procedure will be prescribed by state law and will vary by jurisdiction.

Dividend: A transfer of corporate profit to a shareholder. A distribution of money or property paid by the corporation to a shareholder based on the amount of shares held. A proportionate share of the net profits of a business that the board of directors has determined should be paid

out to shareholders, rather than held as retained earnings. Dividends must be paid out of the corporation's net earnings and profits. The board of directors has the authority to declare or withhold dividends based on sound business discretion.

Domestic corporation: A corporation is a domestic corporation in the state in which it is incorporated.

Double-entry accounting: A method of accounting whereby each transaction is recorded twice as a credit and as a debit.

Equity financing: Selling and issuing corporate stock shares to raise capital.

Equity interest: An ownership interest to a corporation (share) or LLC (membership interest).

Expenses: The costs to a business of producing its income.

Fictitious name: A trade name or assumed name other than the legally registered name of a LLC to transact business.

Fiduciary relationship: A special legal duty in which parties are required to act in good faith.

FIFO: First-in, first-out method of accounting for inventory. The inventory value is based on the cost of the latest items purchased.

Financial statements: Reports that summarize the finances of a business. Profit and loss statement and a balance sheet.

Fiscal year reporting: Reporting taxes for any 12-month period that does not end on December 31 of each year.

Fiscal year: A twelve month accounting period used by a company.

Fixed assets: Assets of a business that will not be sold or consumed within one year. Generally, fixed assets other than land must be depreciated.

Foreign corporation: A corporation registered in a different state. A corporation is referred to as a foreign corporation in all states other than the one in which it is actually incorporated. In order to conduct active business affairs in a different state, a foreign corporation must be registered with the other state for the authority to transact business and it must pay an annual fee for this privilege.

Franchise tax: An annual fee imposed in California by the state on LLCs and Corporations to do business in that state.

General ledger: The centralized listing of all accounts of a business.

General journal: Used to record all of the transactions of a business in chronological order. Transactions are then posted to the appropriate accounts in the general ledger.

Gross sales: The total amount received for goods and services during an accounting period.

Gross profit: Gross sales less business expenses.

Hostile takeover: The situation where a corporation is acquired by new owners by purchasing a majority of shares of a corporation circumventing the board of directors.

Income statement: Financial statement reflecting income and expenses for a company. Also referred to as a profit and loss statement or operating statement.

Incorporation: The process of incorporating. The manner in which a corporation is created pursuant to state law.

Incorporator: The person who executes Articles of Incorporation to be filed with the Secretary of State. Some states allow a separate company to act as an incorporator.

Indemnify: To reimburse or compensate. Principals to a LLC are often reimbursed or indemnified for all the expenses they may have incurred in the formation of the company.

Initial capital: The money or property that an owner or owners contribute to starting a business.

Intangible personal property: Property that cannot be held or touched such as copyrights, business goodwill, and ideas.

Inventory: Tangible property held by a company to be sold to customers.

Involuntary dissolution: Ending a corporate existence contrary to the wishes of the directors or shareholders. Involuntary dissolution will be done by the secretary of state, corporation commission or court of law under certain circumstances.

Issued shares: The authorized shares of stock that have been actually transferred to shareholders. Also referred to as outstanding shares.

Ledgers: The accounting books for a business. Usually refers to the entire set of accounts for a business.

Liabilities: The debts, obligations and liens of a company.

LIFO: Last-in, first-out method of valuing inventory. Total value is based on the cost of the earliest items purchased.

Liquidity: The ability of a company to convert assets to cash and meet its obligations with that cash.

Limited Liability Company: A legal person under the eyes of the law. An LLC is formed pursuant to the process designated under state law. LLC's are similar to corporation in their formation procedure, but profit sharing and management is more analogous to a partnership. However, LLC's extend the same limited liability characteristics that a corporation provides its shareholders, whereas a partnership does not.

Limited Liability Company Operating Agreement: A written agreement, and contractually binding document between the members and managers of an LLC. An operating agreement will govern rights and duties of members and managers as do the bylaws of a corporation. An operating Agreement will also provide for distribution of profits and losses, accounting procedures, and buy out provisions.

Limited partnership: A form of business whereby one or more partners manage the business who will be personally liable for business debts, and where one or more limited partners act as passive investors, without liability. Generally, managing partners of a limited partnership are personally liable for business debts while limited partners are not. Limited partners, however, may not exercise management over the company.

Long-term assets: The assets of a business that will be held for over one year. Those assets of a business that are subject to depreciation (except for land).

Long-term liabilities: The debts of a business that will not be due for over one year.

Managers: In a LLC, the persons designated to handle the management functions of the company. Managers of limited liability companies may or may not be members of the company. Managers are roughly analogous to the officers of a corporation. Administration of management rights should be outlined within a Limited Liability Company Operating Agreement.

Members: In a LLC, members may be people, a corporation, or other business entity. Members possess ownership interests equivalent to shareholders in a corporation. Most states allow single-

member limited liability companies.

Merger: Combining two or more business entities. Generally, the existence of one of the companies will terminate as when a corporation is bought out by another corporation.

Minutes: A written record of the activities of a meeting. Minutes of meetings between directors, shareholders, managers, members of a corporation or limited liability company are to be maintained in a centralized records book.

Name registration: Registering a document with the appropriate state authority in order to preserve rights to the name.

Name reservation: Filing a document with the appropriate state office to secure sole legal use of a desired business name.

No par value shares: Shares of stock that have no specific face value. Actual value of the share is set by the board of directors before a prospective sale of stock. The board of directors can set a value to the stock for sale and can then allocate a portion of the sales price to the paid-in-capital account.

Net income: The dollar amount a business has after deducting expenses. Also referred to as net profit.

Net worth: The dollar value of the owner's ownership interest in a company. The value of a business determined by deducting the debts of a business from the assets of a business.

Net loss: The amount by which a business has expenses and costs of goods sold greater than income.

Non profit corporation: A corporation which is legally formed not to generate income but to institute "limited liability" protection for the members and shareholders. Profits are not distributed but are retained and used for corporate purposes.

Officers: Must be actual people. Officers manage the daily operations of a corporation. Officers are voted on and appointed by the members of the board of directors and usually consists of a president, vice president, secretary, and treasurer. Appointed by the board of directors.

Operating statement: Financial statement that shows the income and expenses for a business. Also referred to as income statement or profit and loss statement.

Operating margin: Net sales divided by gross sales. The actual profit on goods sold, before

deductions for expenses.

Organizer: Similar to an incorporator as with a corporation. An organizer is merely the person who filed Articles of Organization with the Secretary of State. An organizer of an LLC may, but is not required to have any other role with the LLC.

Par value: The face value assigned to shares of stock. Par value stock must be sold for at least the stated value, but can be sold for more than the par value. The par value of stock may be designated in Articles of Incorporation, but in most jurisdictions, this is no longer required. Instead, no par value is designated, and then directors set the value of stock before any issuance.

Parent corporation: The corporate entity which owns the controlling amount of shares to another company.

Partnership: An unincorporated form of business organization that is owned by two or more persons. Partnerships do not possess limited liability characteristics as does an LLC a corporate entity.

Perpetual existence: Also referred to as perpetual duration. The ongoing continuity of a business entity without restriction as opposed to limited duration. Corporations have always had perpetual existence. Until recently, LLCs were required in most jurisdictions to have limited duration.

Personal property: All property other than real estate and buildings attached to the land.

Petty cash fund: A cash fund that is used to pay for minor expenses that cannot be paid by check. Petty cash is not to be used for handling sales revenue. Considered part of cash on hand.

Piercing the corporate veil: A legal theory whereby a court disregards the limited liability protection of an LLC or corporation to hold principals to the business personally liable.

Plant assets: Long term assets of a business. Assets that are subject to depreciation (other than land).

Posting: In double-entry accounting, the process of transferring data from journals to ledgers.

Preemptive rights: A shareholder right that allows shareholders the opportunity to maintain their percentage of ownership of the corporation in the event that additional shares are offered for sale. Shareholders special rights to purchase shares of stock before they may be transferred to another party.

Preferred shares: Stock with superior rights in voting or allocation of dividends over common shares of stock. Usually, preferred shares provides the shareholder with a preferential payment of dividends, but does not carry voting rights. Financial institutions will usually require preferred stock when lending money to ensure the lender will be paid prior to general stockholders.

Professional corporation: An entity comprised under state law by professionally licensed stockholders.

Profit and loss statement: Financial statement that shows the income and expenses for a business. Also referred to as income statement or operating statement.

Proxy: A written authorization from a shareholder to vote shares on behalf of another. Directors may never vote by proxy except in some close corporations.

Quorum: The required number of persons necessary to officially conduct business at a corporate meeting. Amount of voting shares needed at a meeting to pass a valid act on behalf of a corporation or LLC. Generally, a majority of the shareholders or directors constitutes a quorum.

Reconciliation: The process of bringing a bank statement into agreement with the business check register.

Registered agent: The person designated in the Articles of Incorporation who will be available to receive service of process on behalf of the company. Corporations and LLC's must always maintain a registered agent. Also referred to as statutory agent on some jurisdictions.

Registered Office: The legally designated location a business entity such as an LLC or Corporation. Registered addresses may be, but do not have to be in care of the LLC's registered agent. The registered office does not need to be the actual place of business of the company.

Resolution: A formal decision adopted by either the shareholders or the board of directors of a corporation or by the members of an LLC to carry out an Act.

Restated articles of incorporation: Restated articles are merely amended, changed or altered articles which are filed with the state incorporation authority. Usually done to correct a clerical error or to address unforeseen circumstances.

Retained earnings: In a corporation, the portion of the annual profits of a business that are kept and reinvested in the company, rather than distributed to shareholders in the form of dividends.

S corporation: A type of business corporation in which all of the expenses and profits are passed

through to its shareholders to be accounted for at tax time individually in the manner of partnerships. A specific IRS designation that allows a corporation to be taxed similarly to a partnership, yet retain limited liability 'or its shareholders. Also known as a Subchapter S Corporation. Limited Liability Companies were authorized in large part as a result of the popularity of S Corps.

Salary: Fixed weekly, monthly, or annual compensation for an employee.

Salvage value: The value of an asset after it has been fully depreciated.

Share: Also known as stock. A share is an ownership interest in a corporation or LLC which may be evidenced by a certificate.

Shareholders: Owners of issued stock of a corporation and, therefore, owners of an interest in the corporation. They elect the board of directors and vote on major corporate issues.

Shareholder's equity: In a corporation, the owner's equity of a business divided by the number of outstanding shares.

Single-entry accounting: A business record-keeping system that generally tracks only income and expense accounts. Used generally by small business, it is much easier to use and understand than double-entry accounting.

Sole proprietorship: An unincorporated business entity in which one person owns the entire company. A person doing business without filing or forming a separate business organization to conduct business under. Sole proprietors are personally liable for business obligations and there personal assets may be held to satisfy claims brought for business affairs.

Special meeting: An unscheduled meeting between directors and or shareholders brought for a specific purpose.

Stock transfer book: The ledger book or sheets where registered owners of shares in the corporation are recorded.

Subscribers: Entities which have agreed to acquire shares of stock of a corporation.

Subsidiary: A business that is owned by another entity.

Tangible personal property: Property not attached to land that can be held or touched.

Treasury shares: Shares of stock that have been issued and then later reacquired by a

corporation and not canceled. Treasury shares may be issued as dividends to shareholders.

Voluntary dissolution: The procedure of dissolving or winding down a business entity by way of an approved act of that company.

Voting rights: Stock holders rights to vote concerning management and operation of a corporation.

Watered shares: Shares sold by a corporation for less than par value.

Withdrawal: The process of filing appropriate documents for an LLC or corporation with a state incorporation office to terminate the authorized transaction of business with a particular state.

Working capital: The money available for immediate business operations. Current assets minus current liabilities.