Planning 10 - Financial Terms

These are the *concepts you should be learning* as opposed to exact definitions to memorize.

To help with you learn the terms, students will teach some of the them to the class during Money Monday's *5-Minute Finance* presentations. However, it is your responsibility to study and research each concept/term until you understand it - especially since not all terms will be covered in the presentations.

In addition, remember that you will be evaluated on your ability to *apply the concept* to a situation rather than just match it with a definition.

To help focus your studying, terms that are most likely to appear on the midterm and final exams have an * beside them.

Term	Definition	Notes
10% Rule*	Every time you make a deposit into your bank account, you should put 10% into a savings account for future unexpected expenses	If you get $20/week and consistently put 10% into savings, at the end of the year you will have $104 dollars saved.
Audit	An objective examination and evaluation of a person's financial statements to make sure the records are an accurate representation of the financial transactions they claim to represent	Audits may be conducted by the government on individuals' tax forms, either by random selection or due to a red flag such as suspected tax fraud.
Bonds*	A type of investment where a person loans money to an entity (usually a corporation or a government) for a defined period of time, and that will be paid back with interest	They are essentially loan agreements between the bond issuer and an investor, in which the bond issuer is obligated to pay a specified amount of money at a specified future date. The Canadian government issues bonds that are popular due to their low-risk nature.
Budget*	An estimate of income and expenditure for a set period of time	If you expect to make $500 dollars each month, with $100 going to car insurance and $50 into savings, that leaves you with a $350 budget for the month to buy shelter, food, and everything else.
Canadian Income Tax (CIT)*	A mandatory payment imposed on Canadian residents taken from their gross income as a contribution towards the costs of government services	This is a major part of the deductions taken off paycheques. The amount of CIT paid is determined by several factors, such as province/territory of residence and gross income. CIT is a progressive tax, meaning the more money you earn the higher your income is taxed.
Canadian Savings Bond (CSB)	Canada Savings Bonds are investment instruments offered by the Government of Canada	You can purchase a savings bond, and because over time the interest on it will grow, it will end up being worth more than its face value.
Compound Interest*	Interest on a deposit or loan, calculated on the initial principal (amount) and also the accumulated interest from previous periods	"Interest on interest". If you had $100 in a savings account earing 5% compound interest, at the end of the first month you would have $105. At the end of the second month you would have $110.25 (as opposed to $110 in an account that paid only 5% simple interest).

Credit*	1. An amount available to a customer in order to obtain goods or services before payment, based on the trust that payment will be made in the future 2. An amount added to a balance, such as a deposit in a savings account	Most people have credit in the form of a line of credit and/or a credit card. Credit used by an individual is subject to interest, and penalties if not paid back according to the prearranged agreement.
Credit Card*	A small plastic card issued by a credit company or financial institution allowing a person to purchase on credit	The most common credit card issuers are Visa and MasterCard. Credit cards have specific guidelines for payback, and charge interest if not paid in full by the end of the grace period.
Debit*	An accounting term for a transaction that decreases the amount of the overall balance	A debit card linked to your bank account allows you make a debit transaction (a purchase), as well as allow you to access your bank account for money deposits and withdrawals.
Debt*	An amount owing	If you have borrowed a student loan of $15,000 and have a car loan of $5000 and owe $1100 in rent, you have a total debt of $21,100.
Dividend	the part of the earnings of a corporation that is distributed to its shareholders, usually paid quarterly	If you own shares in a company, you will earn a financial dividend when it makes a profit that it shares with all it shareholders.
Embezzlement	A crime where a person uses money for unintended and unauthorized purposes	For example, a cashier who steals money from their register till is embezzling. Another example is an accountant who takes money from the company's revenue and adds it onto his own paycheque without the authorization from the appropriate supervisor.
Employment Insurance (EI)*	A government-run social program in Canada that allows individuals who have recently lost a job for certain reasons to receive temporary financial assistance	If a person gets laid off from their job, they can apply to receive EI and temporarily get paid a percent of their typical income until they find a new job.
Equity	The difference between the value of an asset and the amount still owing on a possession	If someone buys a car with a $5,000 loan and $10,000 of their own savings, the person has $10,000 in equity (ownership) in the car; if that person resells the car for $14,000, they can only keep $9,000 as the other $5,000 is owed to the loan giver.
Expenses*	The cost required for something; the money spent on something	A budget is made up of income and expenses; income is the money coming in, while expenses are the money going out (such as food, rent, and utilities in a personal budget).
Financial Institution (FI)*	An organization focusing on dealing with financial transactions such as investments, loans and deposits	Common FIs include banks, credit unions, investment dealers, and trust companies.
Financial Literacy	The possession of knowledge and understanding of financial matters	Planning 10's finance unit is all about financial literacy!

Financial Portfolio	A grouping of investments an individual has put money into, hoping for a positive return over time	A person's financial portfolio can be made up of a variety of investment vehicles, such as bonds, an RRSP account, etc. Many people hire a financial professional to manage their portfolio for them.
Fixed Expense*	An expense that stays consistent from one time period to the next.	This is the opposite of variable expenses. Monthly car insurance and apartment rental payments are fixed, not changing from one month to the next.
Fraud	An intentional act of deception involving financial transactions for the purpose of personal gain	For example, you are committing tax fraud against the government if you submit a tax return that does not include the tip money you received while working in a restaurant.
Goods and Services Tax (GST)*	A Canadian tax on goods (products) and services meant for consumption in the country	GST applies to most purchases, although there are some exceptions (such as groceries and prescription medications). In 2016, GST is an extra 5% on top of the purchase price.
Gross Income*	An individual's total personal income before taking away taxes or deductions, usually expressed as a yearly amount	If you work 28 hours at $10.75 per hour, your gross income is $301.00 before deductions.
Guaranteed Investment Certificate (GIC)*	A Canadian investment vehicle with a guaranteed rate of return (profit) over a fixed period of time	GICs guarantee you will not lose any amount of your principal (the money you invest), making it a safe form of investment.
Income*	The money one receives regularly	A work paycheque is the kind of income most people receive. Other examples: Employment Insurance payouts, dividends and interest made off of investments.
Income Tax*	A tax imposed by the federal and provincial governments on income	Tax rates vary depending on: the amount of gross income for the year, the province worked in, the age of the individual, and other variables. In addition, businesses must pay corporate income tax, which has its own regulations.
Indexing	The statistical measures of change in an economy	
Inflation	A general increase in prices, and therefore fall in the purchasing value of money, in an economy	As inflation rises, every dollar you own buys a smaller percentage of a good or service compared to the past. This is what makes bananas now an average of 78 cents a pound instead of 12 cents a pound as they were 30 years ago.
Insurance*	An arrangement for financial compensation for certain types of loss or damage	Many adults have several types of insurance, such as: car, life, critical illness, home and property, and travel insurance. Businesses must also have specialized types of insurance. An individual pays a premium (a set dollar amount at fixed intervals of time, usually yearly) in case they need to claim an insurance payout in the future (if proof of loss or damage is provided).

Interest*	The fee you are charged when you borrow money, or the money you receive from the financial institution when you lend your money or put it in a savings account, usually expressed as an annual percentage rate an charged monthly	If you borrow $100 from a bank at a 10% interest rate, you will need to repay the original $100 (the principal) as well as $10 (interest) for a total of $110 repayment.
Interest Rate*	The percentage at which interest is charged or paid	A company is building a $50 million factory. If a bank agrees to lend $50 million dollars but requires them to pay $5 million of interest, the interest rate is calculated by: *Interest Rate = ($5 million) / ($50 million) = 10% interest*. Therefore, the interest rate is 10%.
Investment*	Putting money towards something, expecting a profit over a period of time	Bonds are more stable types of investment, while stocks are more risky. There are other types of investments, as well.
Investment Vehicle*	A product used by investors with the intention of earning a profit off of the returns	Examples of investment vehicles: stocks, bonds, registered savings accounts, GICs.
Life Insurance	An insurance arrangement that pays out when a person dies	Life insurance payouts are to help cover funeral costs and outstanding debts, and to help one's beneficiaries (usually a spouse and/or children) prosper despite the loss of income due to death.
Line of Credit	A loan arrangement between a financial institution (usually a bank) and a customer concerning a maximum loan amount the customer may borrow	Credit lines often have more flexible guidelines than credit cards, such as lower interest charges.
Loan*	The amount borrowed by a customer from a financial institution (usually a bank) with the understanding it will be paid back with interest	Loans can also be issued by the government, such as in the form of student loans to postsecondary students.
Mortgage*	A loan arrangement between a customer and a financial institution (usually a bank) allowing the customer to pay for the purchase of a home over a fixed amount of time and with interest	A person who owns a home pays a mortgage payment every month until the home's purchase price and the interest accrued over time have both been paid off. The amount the person has paid is the amount of equity they own in the house, which will eventually be 100% when the mortgage is fully paid.
Net Income*	An individual's total personal income after taking away taxes and deductions	Example: If in one pay period you earn a gross income of $301.00, after deductions of 26% you would be allowed to keep $222.74 of the original $301.00. Your paycheque would be made out for this amount ($222.74).
Paycheque Deductions*	The money taken off of one's gross income for taxes and other payments, such as vacation pay and Employment Insurance (EI)	If your gross income is $301.00, but you only see $288.00 on your paycheque, the money taken away is for taxes/other deductions

Personal Credit Rating*	An estimate of a person's ability to fulfill their financial obligations, based on information such as their previous dealings	Credit ratings are also given to corporations and governments. Credit assessment is gone by a credit rating agency; if your credit rating is inaccurate, you can ask the agency to reassess with new, accurate information. Your credit rating determines how easily you can borrow money for reasons such as a car loan, business start-up loan, or home mortgage.
Provincial Sales Tax (PST)*	A Canadian sales tax applied in some provinces to purchases of goods (products) and services meant for consumption in that province	PST applies to most purchases, and is generally 7% in B.C. in 2016. However, this rate varies depending on the type of purchase, and is exempt on some purchases made for children, such as clothing and school supplies.
Real Rate of Return	The annual percentage return (profit) on an investment, adjusted for changes in prices due to inflation or other external effects on the economy	If you put money into a savings account that pays 5% interest, but over time inflation increases by 2% (which decreases the value of each dollar), your real rate of return is actually 3%.
Refinancing	Renegotiating the terms of a loan, typically with a lower rate of interest or a changed length of time in which to repay it	If you are unable to make your mortgage payments, you may be able to refinance to make the monthly payment less, although it would take longer to pay off
Registered Education Savings Plan (RESP)*	An RESP is a tax-free bank account used to save for post-secondary education in Canada	Parents can put money aside for their children in an RESP account an earn interest on it, without paying income tax on the contributions.
Registered Retirement Savings Plan (RRSP)*	An RRSP is a type of tax-free savings account used to save for retirement in Canada	RRSP contributions are tax deductible, though the money is charged income tax when withdrawn (though usually at a lower tax rate than when it was initially contributed).
Revenue	Income that a company receives from its normal business activities, usually from the sale of goods and services to customers	Similar to an individual's gross income, revenue is how much money a company makes before subtracting expenses and taxes
Savings Account*	A bank account that earns interest and is meant to be used for savings money, not day-to-day credit and debit transactions	Different financial institutions offer different savings accounts, each with different regulations and interest rates.
Shareholder*	Any person, company or other institution that owns at least one piece ("share") of a company	Shareholders are a company's owners. They have the potential to profit if the company does well, but that comes with the potential to lose if the company does poorly. A shareholder may also be referred to as a "stockholder".
Shares	One of the equal parts into which a company's assets is divided, entitling the holder to a portion of the profits; these are usually bought and sold on a stock market	If you own 100 shares in a company with 10,000 shares, and the company makes a profit in one year of $30,000 that it splits amongst its shareholders, your shares will earn you $300 in that year. You can sell your shares, hopefully at the same price or higher than what you bought them at, so that you make a profit. *Stocks* is commonly used as a synonym for *shares*.

Stock*	The portion of a company owned (through shares) by a shareholder; this ownership entitles the holder to a portion of the company's profits and may allow them to vote in shareholders' meetings (which help determine how the company will be run)	If a company issues 1000 shares of stock and one person owns 100 shares, that person owns 10% of the company and has claim to 10% of the company's profits. *Shares* is commonly used as a synonym for *stocks*.
Stock Market	Where shares of participating companies are issued, bought, and sold, usually through exchanges such as the New York Stock Exchange (NYSE)	The stock market is how investors can participate in the financial achievements of the companies whose shares they hold. When companies are profitable, stock market investors make money through the dividends the companies pay out and/or by selling their shares at a profit.
Tax Free Savings Account (TFSA)*	A TFSA account is a type of Canadian savings account that does not charge income tax on any contributions made into it up to a certain amount	A TFSA is useful for saving money towards a large purchase, such as a car or house.
Taxes*	Money charged by the government off of purchases, financial transactions and incomes; this money pays for our public services	When you go to buy a shirt that is $10.00 and ends up being $10.56, that extra 56 cents is the tax imposed by the government. The business selling the shirt then has to pass on those 56 cents to the government on your behalf.
The Rule of 72	A simplified way to determine how long an investment will take to double in value, given a fixed annual rate of interest: 72/rate = years required to double investment	By dividing 72 by the annual rate of return, investors can get a rough estimate of how many years it will take for the initial investment to duplicate itself. Example: 72/8% = 9 years
Variable Expense*	An expense that fluctuates from one time period to the next.	This is the opposite of fixed expenses. Monthly electricity bills are variable as they change depending on usage. Monthly spending on food and car fuel are examples of other types of variable expenses.