Glossary of Business, Financial and Legal Terms

Accrual: A method of accounting that matches expenses with revenues. Under accrual accounting, inventory purchased in one season, but not used until the next, will be expensed only when used, even though it might have been paid for in the previous year.

Affidavit: A sworn statement.

Amortization: Similar to depreciation, this is the erosion in value over time of an asset. Usually used for intangible assets including prepaid expenses, patents, loans, and the like.

Appurtenance: A fixed or immovable structure, such as a barn or a shed, which is passed along with the sale or transfer of a property.

Assessed value: The value of the land and buildings/structures used to calculate property taxes.

Assets: Assets are things of value. They may be tangible or intangible. Tangible assets are physical property that have monetary value. Examples include land, buildings, and equipment. Intangible Assets are things of value that are not physical property like a valued brand name, a patent, a customer list, or intellectual property.

Balance Sheet: A financial statement that provides a "snapshot" of your financial position by listing assets and liabilities at a specific point in time, usually at the end of the quarter or year.

Basis: The cost of an item, for tax purposes. This may be different than the actual purchase price. Often comes into play in an estate tax or capital gains situation.

Beneficiary: The person or people named to receive a benefit in a will, trust, or insurance policy.

Bequest: A gift made as part of a will or trust that transfers at death.

Budget: A spending plan based on estimated income and expenses over a set period of time.

Business Plan: A plan that describes the type of business you want to build and how it will make money.

Buy/Sell agreements: Formal agreements that spell out terms of ownership transfer in the event of death, divorce, disability, dissolution, or disaster. They often address valuation, discounts, terms of sale, and possible restrictions on asset transfers.

Capital gains: A type of income generated when an asset is sold for more than its basis (usually its purchase price). This can include land, stocks, or other appreciating assets not part of the business's core operations and held for an extended period. It does not include inventory. Capital gains are generally taxed at a lower rate than ordinary income.

Cash Flow Statement: A basic financial statement that summarizes incoming and outgoing cash over a specific period—like a month, a quarter, or a year. It details how much cash is available and used for operations, investments, and financing to measure a business' financial health.

Certificate of title: A legal statement indicating that the title to property like real estate or a vehicle is legally held by the current owner and is free and clear of any encumbrances.

Collateral: Property pledged to secure a bank loan.

Comparative market analysis: A realtor's analysis used to estimate a competitive sales price for a property. It reviews factors including recent sales of comparable properties, pending sales and listings of similar properties to arrive at "Fair Market Value."

Conservation easement: A voluntary deed restriction placed on a property to limit development and to conserve natural resources. An ***agricultural conservation easement*** is specifically designed to protect farmland and ranchland.

Corporation: An organization that is recognized as a separate legal entity and distinct from its owners including nonprofits and cooperatives (see Business Structure Information Sheet). Many farms operate as Subchapter-S Corporations or LLCs. There can be tax, liability, and legal advantages to forming a corporation.

Debt-to-asset ratio: Measures total liabilities against total assets.

Deed: A legal document that conveys title (ownership) to real property including land and buildings.

Deed restrictions: Provisions placed in deeds to control how future owners may or may not use the property.

Depreciation: The loss of an asset's value over time.

Encumbrance: A claim against real estate or other assets by a person or entity that does not own the asset. Common real estate encumbrances include liens, leases, mortgages, easements and other deed restrictions or covenants.

Estate: All assets that a person owns while living or at the time of death.

Estate plan: A plan to transfer an individual's assets (and debts) upon their death.

Estate settlement: See probate process.

Estate tax: Also known as inheritance or death taxes, estate taxes are levied by the state and/or federal government to the person who inherits the descendant's property.

Equity: In real estate, equity refers to how much property a holder owns, including the difference between a property's market value and the amount owed on a mortgage or other loans. In business, it refers to the value of shares issued by a corporation and is calculated by the company's total assets minus its total liabilities. Legally, including in transfer planning, it refers to being fair and just.

Equity-to-asset ratio: Measures the percentage of business assets that you own, net of any borrowing.

Executor: A person named in a will to carry out its instructions. Female executors are called executrix. Depending on the state, this role may be referred to as the administrator or personal representative.

"Fair vs. Equal": In transfer or estate planning, an "equal" distribution means that property is divided in equal percentages among heirs. In a "fair" or equitable distribution, property may be divided based upon the contributions and needs of beneficiaries so the economic value of shares may be different.

Farm succession: The process of transferring ownership of the farm/ranch business and real property from one generation to the next.

Financial Statements: The basic trio of Balance Sheet, Income and Cash Flow Statements.

Fixed costs: Business expenses that are constant whatever the quantity of goods or services produced.

Fractionated Ownership (Fractionation): When a trust parcel is owned by more than one owner as undivided interests. Fractionated ownership results from interests being divided when an owner dies without a will leading to numerous owners who must agree on how to use the land.

Gift: A transfer of an asset without any payment, or where the payment is less than full market value.

Gross Margin: Money left over from variable costs to cover fixed costs and profits.

Ground Lease: A long-term lease agreement where a tenant may own improvements they make on a piece of property but not the property itself.

Heirs: People designated by law to receive a deceased person's property either by the terms of a will or by state law.

Heirs' property: When an owner dies without a will their land is owned "in common" by all the heirs and state law decides who will inherit the land. When land is passed down through the generations without a will, each of these co-owners own a fractional—or partial interest in the land. Because these interests are undivided no co-owner can claim ownership of a specific portion of the land.

Inheritance tax: See estate tax.

Income Statement: The financial statement that shows a business's performance over a period of time, such as a month or year depicting profit or loss.

Intestate: Leaving no legally valid will.

Intestacy Laws: State laws that decide how an estate is distributed among surviving heirs when the owner dies without a will.

Joint Tenants, Tenants by the Entirety or Joint Tenancy: Shared ownership. At the death of one owner, the property passes to the survivor(s) regardless of what is in the will. Tenants by the entirety is specific to married couples.

Liabilities: Debts, loans, legal obligations or risks.

Lien: A security interest in a property. Liens must generally be satisfied before a property can be sold.

Limited Liability Company (LLC): A business structure that combines the benefits of a corporation and a partnership. It offers limited liability protection so that the owners' personal assets are protected from business debts and lawsuits while also allowing for flexible management and taxation options.

Liquidity: The measure of a business' cash position or the ability of an asset to be converted to cash.

Net Present Value: A method to measure the present-day value of an investment. Future costs and benefits are plotted out on a timeline, then discounted by taking the ***time value of money*** into account (the loss in value of future returns due to interest costs and inflation).

Opportunity Cost: The loss of potential gain when one alternative is chosen over another.

Option to Purchase: An agreement which gives a buyer the sole right to buy property within a set time period for a fixed or sometimes variable price. During the option period, the seller is not allowed to work with any other potential buyers.

Probate: The process of settling the affairs of a deceased person. A ***probate court*** is a court of law with the authority to verify the legality of a will and carry out its instructions.

Real Property: Land and everything that is fixed or permanently attached to it including buildings and other structures.

Return on Investment (ROI): The amount of money a given investment is projected to yield calculated by: Net earnings/Value of investment. Similar equations measure return on assets and equity.

Sale: A transaction between two or more parties where assets are exchanged for a price. Sales can happen all at once, through installment payments over time, or phased by selling portions of the assets.

Sole Proprietorship: A basic business structure where all income and obligations of the farm flow through to the owner.

Sunk Costs: Money that already has been spent and cannot be recovered and/or assets that already have been purchased and are difficult or impossible to resell.

Tax basis: The amount of the landowner's capital investment in property (including value or cost when acquired) for tax purposes and is used to figure depreciation, amortization, depletion, casualty losses and any gain or loss on the sale, exchange or other disposition of the property.

Tenancy in Common: Shared ownership with undivided interests, meaning each owner possesses a share of the whole, but not a specific piece of the parcel. Owners have equal rights as long as they live. They can transfer their share—or interest by gift, sale or will, and decide who will own it when they pass away. But because their interests are undivided, they can't claim ownership of a specific portion of the land.

Testate: Having made a legally valid will.

Title: The right to or ownership of something.

Transfer on death (TOD): Designation of property to transfer upon death to someone according to the terms of the deed, will or trust documents, or "intestate" for someone who dies without a will.

Trust: Ownership and control of assets by a third party (***a fiduciary***) who manages the property and pays its income to a named person or people—or beneficiary—according to instructions given by the ***trustor*** who set up the trust. A ***trustee*** is the person or institution who holds the property in trust.

Will: A legal document directing the disposal of one's property after death

Variable costs: Expenses that change in proportion to the level of production or sales.

Working Capital: Available cash that can be used to fund day-to-day operations of your farm.

This resource is part of American Farmland Trust's Farm Transfer Toolkit which is available on AFT's Farmland Information Center website. The toolkit walks agricultural landowners through key steps in a farm transfer process. It contains information, worksheets and other tools to help users set goals, assess their finances, communicate with stakeholders, and work with professionals to finalize decisions and implement a transfer plan.