ENCYCLOPAEDIA OF ACCOUNTING

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Preface

For some time there has existed a widespread consciousness of the need for the interpretation of the accounting terms to the layman. The average reader is deluged continually with a quantity of facts in the field that we call accounting. A possible aid to the solution of this problem is the compilation of a volume, which endeavors to explain to the ordinary reader terms which are new to him and which have not yet become part of his general vocabulary. Existing contributions of the kind are limited in scope to some such field as accounting. This volume attempts in brief compass to cover broadly the whole realm of accounting.

The aim of this volume is to fill the need for definitions of many new terms that have come into usage during recent years and also to include many of the old terms that are used currently. Many words from fields closely related to accounting are included because of their wide usage in accounting.

Clarification of the meaning of terms, precision in their use, and uniformity in usage among workers in accounting and related fields are essential in the growth of a science. When a concept or process can be expressed precisely in ordinary language it appears unnecessary, and indeed detrimental to the growth of a science, to coin a new term. It is worth while to make accounting intelligible to as wide a field of readers as possible.

The aim of this volume is to provide a concise repository of number of major concepts. In preparation of this book, the author has freely consulted large number of books and journals so no authenticity is claimed. Author is especially thankful to M/S Anmol Publications for shaping this book in its final form.

Suggestions for further improvement of this book are not only welcome but also greatly appreciated.

Author

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A (1) Linear acceleration (a). (2) Mean sound absorption coefficient (*a*). (3) Element argon (A). (4) Angstrom unit (A or Å). (5) First van der Waals constant (a). (6) Chemical activity (a). (7) Accommodation coefficient (a). (8) Amplification of amplifier (*A*). (9) Amplitude (*A*). (10) Refracting angle of prism (*A*). (11) Area (*A*). (12) Specific rotation of light |*a*|. (13) Free energy, Helmholtz, which is also known as isothermal work function, total (*A*), per unit mass (*a*), per mole (*a*, *A* or A_{m}).

ABA (Accredited Business Accountant or Accredited Business Advisor), is a national credential conferred by Accreditation Council for Accountancy and Taxation to professionals who specialize in supporting the financial needs of individuals and small to medium sized businesses. ABA is the only nationally recognized alternative to the CPA. Most accredited individuals do not perform audits. Generally, they are small business owners themselves. In addition to general accounting work, CPAs are also heavily schooled in performing audits; however, only a small fraction of businesses require an audit. In general, a CPA has majored in accounting, passed the CPA examination and is licensed to perform audits. An ABA has majored in accounting, passed the ABA comprehensive examination and in most states is not licensed to perform audits.

Abatement, in general, is the reduction or lessening. In law, it is the termination or suspension of a lawsuit. For example, an abatement of taxes is a tax decrease or rebate.

Abbreviated accounts A company qualifying as a small or medium-sized company under the Companies Act (1989) may file abbreviated accounts with the Registrar of Companies instead of the full report and accounts (see annual accounts). These accounts, previously known as modified accounts, are an additional set of financial statements drawn from the full financial statements, specifically for the purpose of delivery to the Registrar; they thus become a public document and must be accompanied by a special report of the auditors.

Ability-to-pay taxation A form of taxation in which taxes are levied on the basis of the taxpayers' ability to pay. This form of taxation leads to the view that as income or wealth increases, its marginal utility (its value to its owner) decreases so that progressive rates of tax can be levied on the higher slices.

Abnormal loss The loss arising from a manufacturing or chemical process through abnormal waste, shrinkage, seepage, or spoilage in excess of the normal loss. It may be expressed as a weight or volume or in other units appropriate to the process; it is usually valued on the same basis as the good output. An **abnormal gain** is an unexpected surplus of output that may occur if the actual loss is less than anticipated.

Above the line For the individual, is a term derived from a solid bold line on Form 1040 and 1040A above the line for adjusted gross income. Items above the line prior to coming to adjusted gross income, for example, can include: Ira contributions, half of the self-employment tax, self-employed health insurance deduction, Keogh retirement plan and self-employed SEP deduction, penalty on early withdrawal of savings, and alimony paid. A taxpayer can take deductions above the line and still claim the standard deduction.

Abridged accounts Financial statements other than the full report and accounts of a company (*see* annual accounts); they are defined in the legislation as non-statutory accounts. Under the Companies Act (1989) a company has to make a statement on any non-statutory accounts it issues to the effect that they are not the full statutory accounts.

Absolute change Is a numerical change in an empirical value, e.g. cost of goods was reduced by $9.00.

Absorb Is to assimilate, transfer or incorporate amounts in an account or a group of accounts in a manner in which the first entity loses its identity and is “absorbed” within the second entity. For example,

Absorbed costs Incorporates both variable and fixed costs.

Absorbed overhead (recovered overhead; applied overhead) The amount of the overhead of an organization charged to, or borne by, the production of that organization for the accounting period under consideration when the technique of absorption costing is used. Absorbed overhead is obtained by multiplying the actual production for the period by the absorption rate.

Absorption (cost absorption; overhead absorption) An accounting process used in absorption costing in which the overhead of an organization is borne by the production of that organization by the use of absorption rates.

Absorption account An account opened when a system of double-entry cost accounting is in operation to show the amount of overhead that has been absorbed by the production.

Absorption costing Is the method under which all manufacturing costs, both variable and fixed, are treated as product costs with non-manufacturing costs, e.g. selling and administrative expenses, being treated as period costs.

Absorption rate (overhead absorption rate; recovery rate) The rate or rates calculated in an absorption costing system in advance of an accounting period for the purpose of charging the overheads to the production of that period. Absorption rates are calculated for the accounting period in question using the following formula:

Budgeted overhead/budgeted production.

In absorption costing production may be expressed in a number of different ways; the way chosen to express production will determine the absorption rate to be used. The seven major methods of measuring production, together with their associated absorption rate, are given in the table. The rate is used during the accounting period to obtain the absorbed acceptance supra protest overhead by multiplying the actual production achieved by the absorption rate.

Production measure

Absorption rate

Units, weight, or volume

Rate per unit, weight, or volume

Direct labour hours

Rate per direct labour hour Machine hours

Rate per machine hour

Direct labour cost

% on direct labour cost

Direct material cost

% on direct material cost
Prime cost
% on prime cost
Standard hours
Rate per standard hour

Absorption variance Is the variance from budgeted absorption costing of manufactured product.

ACAT (Accreditation Council for Accountancy and Taxation) is a national organization established in 1973 as a non-profit independent testing, accrediting and monitoring organization. The Council seeks to identify professionals in independent practice who specialize in providing financial, accounting and taxation services to individuals and small to mid-size businesses. Professionals receive accreditation through examination and/or coursework and maintain accreditation through commitment to a significant program of continuing professional education and adherence to the Council's Code of Ethics and Rules of Professional Conduct.

Accelerated cost recovery system A system of depreciation designed to encourage capital investment by businesses. It permits a quicker recovery of an asset's cost to provide higher tax benefits in the earlier years of its use. A higher depreciation charge is made to the profit and loss account in the early years, thus reducing the amount of profit assessable for tax.

Accelerated Depreciation Method that records greater depreciation than straight-line depreciation in the early years and less depreciation than straight-line in the later years of an asset's holding period. (see straight-line depreciation.)

Acceleration Clause A clause (often in mortgages or other loans) where some action will occur ahead of schedule as a result of some other action. For example, an acceleration clause in a loan may mean that the full amount is due immediately if the debtor misses two monthly payments in a row.

Acceleration The action of a lender in demanding early repayment when a borrower defaults.

Acceptance credit A means of financing the sale of goods, particularly in international trade. It involves a commercial bank or merchant bank extending credit to a foreign importer whom it deems creditworthy. An acceptance credit is opened against which the exporter can draw a bill of exchange. Once accepted by the bank, the bill can be discounted on the money market or allowed to run to maturity. In return for this service the exporter pays the bank a fee known as the acceptance commission.

Acceptance Is a drawee's promise to pay either a TIME DRAFT or SIGHT DRAFT. Normally, the acceptor signs his/her name after writing "accepted" (or some other words indicating acceptance) on the bill along with the date. That "acceptance" effectively makes the bill a promissory note, i.e. the acceptor is the maker and the drawer is the endorser.

Acceptance supra protest (acceptance for honour) The acceptance or payment of a bill of exchange, after it has been dishonoured, by a person wishing to save the honour of the drawer or an endorser of the bill.

Accommodation bill A bill of exchange signed by a person (the accommodation party) who acts as a guarantor. The accommodation party is liable for the bill should the acceptor fail to pay at maturity. Accommodation bills are sometimes known as **windbills** or **windmills.**

Accommodation party The person who signs an accommodation bill as drawer, acceptor, or endorser and acts as the guarantor.

Accomodation endorsement Is a)The guarantee given by one legal entity to induce a lender to grant a loan to another legal entity. b) a banking practice where one bank endorses the acceptances of another bank, for a fee, qualifying them for purchase in the acceptance market.

Accord and satisfaction A device enabling one party to a contract to avoid an obligation that arises under the contract, provided that the other party agrees. The accord is the agreement by which the contractual obligation is discharged and the satisfaction is the consideration making the agreement legally operative. Such an agreement only discharges the contractual obligation if it is accompanied by consideration. For example, under a contract of sale the seller of goods may discharge the contractual obligation by delivering goods of different quality to that specified in the contract, provided there is agreement with the buyer (the accord) and a reduction in the contract price (the satisfaction) is offered. The seller has therefore 'purchased' release from the obligation. Accord and satisfaction refer to the discharge of an obligation arising under the law of tort.

Account aging Usually refers to the methods of tracking past due accounts in accounts receivable based on the dates the charges were incurred. Account aging can also be used in accounts payable, to a lesser degree, to monitor payment history to suppliers.

Account analysis Is a way to measure cost behavior. It selects a volume-related cost driver and classifies each account from the accounting records as a fixed or variable cost. The cost accountant then looks at each cost account balance and estimates either the variable cost per unit of cost driver activity or the periodic fixed cost.

Account code A number given to an account from a chart of accounts. Each number in the code will represent some feature; for example, asset type, location, department with responsibility for maintaining it, etc.

Account current is a running or continued account between two or more parties, or a statement of the particulars of such an account.

Account distribution Is the process by which debits and credits are identified to the correct accounts.

Account group In accounting, is a designation of a group of accounts of like type (for example: accounts receivable and fixed assets).

Account Is the basis for journal entry in accounting. T-accounts have three basic elements. A title, a left side (debit side) and a right side (credit side). To make an entry in a t-account, put the currency (dollar, pound, etc.) amount on the appropriate side (debit or credit). There are five basic types of accounts: assets, liabilities, equity, revenue and expenses. Assets, liabilities and equity are the balance sheet accounts.

Account Payable Amount owed to a creditor for delivered goods or completed services.

Account payee only Words printed between two vertical lines in the centre of a cheque that, in accordance with the Cheque Act (1992), make the cheque non-transferable. This is to avoid cheques being endorsed and paid into an account other than that of the payee, although it should be noted that banks may argue in some circumstances that they acted in good faith and without negligence if an endorsed cheque is honoured by the bank. In spite of this most cheques are now overprinted 'account payee only', and the words 'not negotiable' are sometimes added.

Account Receivable Claim against a debtor for an uncollected amount, generally from a completed transaction of sales or services rendered.

Accountability An obligation to give an account. For limited companies, it is assumed that the directors of the company are accountable to the shareholders and that this responsibility is discharged, in part, by the directors providing an annual report and accounts (see annual accounts). In an accountability relationship there will be at least one principal and at least one agent. This forms the basis of an agency relationship.

Accountable Plan An accountable plan is any reimbursement or other expense allowance arrangement of an employer that meets all of the following requirements (therefore excluding it from gross w-2 earned income and tax):

(1) it provides reimbursements advances or

allowances including per diem and meals, to employees for any job related deductible business expense;

(2) employees must be able to substantiate expenses covered in the plan;

(3) employee must return any excess advances or payments.

Accountancy bodies Organizations, established in most countries in the world, to regulate the activities of accountants; their members are normally entitled to use the title chartered accountant, certified accountant, or certified public accountant. Membership is normally controlled by examination and the members are expected to comply with the regulations of their body. It takes a significant role in the regulation of financial accounting and reporting by issuing accounting standards. **Accountant** A person who has passed the accountancy examinations of one of the recognized accountancy bodies and completed the required work experience. Each of the bodies varies in the way they train their students and the type of work expected to be undertaken. For example, accountants who are members of the Chartered Institute of Public Finance and Accountancy generally work in local authorities, the National Health Service, or other similar public bodies, while members of the Chartered Institute of Management Accountants work in industry. Wherever accountants work, their responsibilities centre on the collating, recording, and communicating of financial information and the preparation of analyses for decision-making purposes.

Accountant's opinion Is a signed statement regarding the financial status of an entity from an independent public accountant after examination of that entities records and accounts.

Accountants' index A bibliography of accounting books and articles published by the American Institute of Certified Public Accountants. Issued on a quarterly basis, it represents a major reference source for all aspects of accounting.

Accountant's lien The right to retain possession of goods or property that belongs to another until that person pays debts due to the possessor of the goods or property.

Accountant's Opinion If a independent certified public accountant is requested to audit a company's books, he will issue a opinion as to the condition of the financial statements. There are several degrees of opinion from clean to adverse. A clean opinion doesn't mean that every number is correct, only that the financials fairly represent the position of the company. An adverse opinion means the financials don't represent the position of the company. A disclaimer means the auditor can't (for any number of reasons) express an opinion on the statements.

Accountants' Report Formal document that communicates an independent accountant's:

(1) expression of limited assurance on financial statements as a result of performing inquiry and analytic procedures (Review Report);

(2) results of procedures performed (Agreed-Upon Procedures Report);

(3) non-expression of opinion or any form of assurance on a presentation in the form of financial statements information that is the representation of management (Compilation Report); or

(4) an opinion on an assertion made by management in accordance with the Statements on Standards for Attestation Engagements (Attestation Report). An accountants' report does not result from the performance of an audit.

Accounting and review Services are official pronouncements covering compilation and review engagements. Compilation is presenting in the form of financial statements information that is the representation of management (owners) without expressing assurance. Review is inquiry and analytical procedures to provide the accountant a basis for expressing limited assurance that there are no material modifications that should be made to the statements for them to be in conformity with U.S. generally accepted accounting.

Accounting bases The methods used for applying fundamental accounting concepts to financial transactions and items when preparing financial statements. The particular bases adopted by an organization will form its accounting policies.

Accounting Change Change in

(1) an accounting principle;

(2) an accounting estimate; or

(3) the reporting entity that necessitates disclosure and explanation in published financial reports.

Accounting code (cost code; expenditure code; income code) In modern accounting systems, a numerical reference given to each account to facilitate the recording of voluminous accounting transactions by computer.

Accounting concepts Are the assumptions underlying the preparation of financial statements, i.e., the basic assumptions of going concern, accruals, consistency and prudence.

Accounting Controls Methods and procedures intended to safeguard assets, authorize transactions, and ensure the accuracy of financial records.

Accounting cushion The practice of making larger provisions for expenses in one year, in order to minimize them in future years. Effectively, earnings will be understated in the present year but will be overstated in a subsequent year.

Accounting cycle Is the sequence of steps in preparing the financial statements for a given period.

Accounting diversity Is the recognition that many diverse national and international accounting standards exist in the world.

Accounting entity A unit for which accounting records are maintained and for which financial statements are prepared. As an accounting concept, it is assumed that the financial records are prepared for a particular unit or entity. By law, limited companies constitute the accounting entity. For sole traders and partnerships accounts are also prepared to reflect the transactions of the business as an accounting entity, not those of the owner(s) of the business. Changing the boundaries of the accounting entity can have a significant impact on the accounts themselves, as these will reflect the purpose of the accounts and for whom they are prepared.

Accounting entity assumption States that a business is a separate legal entity from the owner. In the accounts the business' monetary transactions are recorded only.

Accounting equation Is a mathematical expression used to describe the relationship between the assets, liabilities and owner's equity of the business model. The basic accounting equation states that assets equal liabilities and owner's equity, but can be modified by operations applied to both sides of the equation, e.g., assets minus liabilities equal owner's equity.

Accounting estimate An approximation of a financial statement element. Estimates are included in historical financial statements because some amounts are uncertain pending outcome of future events and relevant data about events that have occurred cannot be accumulated on a timely, cost-effective basis.

Accounting event Is when the assets and liabilities of a business increase/decrease or when there are changes in owner's equity.

Accounting income Is the income derived through historical accrual based accounting. Income = the change in net assets occurring during the period excluding transactions with owners; i.e. transaction based.

Accounting Is primarily a system of measurement and reporting of economic events based upon the accounting equation for the purpose of decision making. Generally, when someone says "accounting" they are referring to the department, activity or individuals involved in the application of the accounting equation.

Accounting manual A document that gives details of a business's accounting policies and procedures; it often includes a list of account codes or a chart of accounts. An example of an accounting policy would be the way in which the company treats depreciation, including the method selected and the useful economic life used for each asset type. The procedure would explain how to apply the policy; for example, how to work out the depreciation charge for the year, which is then debited to the profit and loss account and credited to the provision for depreciation. Other procedures relating to depreciation would show how to deal with both the revaluation of assets and the sale of assets.

Accounting Method Any number of approaches for calculating the income of an entity. Usually applied to the general means of recognizing income and expenses, e.g., cash or accrual. But it can also apply to method of keeping inventories, etc.

Accounting package/software Usually, is a commercially available software program or suite that, with little customization, will satisfy the accounting system needs of the purchasing entity.

Accounting period Is the time period for which accounts are prepared, usually one year.

Accounting plan A detailed accounting guide provided by a number of European countries, such as France and Spain. The guide gives definitions of accounting terms, rules for valuation and measurement, model financial statements, and a chart of accounts. This legalistic approach to the preparation of financial statements contrasts with the approach. **Accounting policies** The specific accounting bases adopted and consistently followed by an organization in the preparation of its financial statements. These bases will have been determined by the organization to be the most appropriate for presenting fairly its financial results and operations; they will concentrate on such specific topics as pension schemes, goodwill, research and development costs, and foreign exchange. Under Statement of Standard Accounting Practice 2, companies are required to disclose their accounting policies in their annual accounts.

Accounting Principles Board (APB) Senior technical committee of the american institute of certified public accountants (AICPA) which issued pronouncements on accounting principles from 1959-1973. The APB was replaced by the financial accounting standards board (FASB).

Accounting Procedure Similar to accounting method, but applied to more routine issues. For example, the method of computing depreciation, handling small capital expenditures.

Accounting profit The amount of profit calculated by using generally accepted accounting principles instead of tax rules. At its simplest the profit is the revenue for an accounting period less the expenses incurred, using the concept of accrual accounting. There are a number of theoretical and practical problems in arriving at the amount, for both revenue and expenses; the result is that the accounting profit has less precision than many believe. One of the consequences of this imprecision is that a number of organizations are tempted to present profits in their best light. Accounting standards attempt to prevent any abuses.

Accounting rate of return An accounting ratio that expresses the profit of an organization before interest and taxation, usually for a year, as a percentage of the capital employed at the end of the period. Variants of the measure include using profit after interest and taxation, equity capital employed, and the average of opening and closing capital employed for the period.

Accounting ratio Is the result of dividing one financial statement item by another. Ratios help analysts interpret financial statements by focusing on specific relationships.

Accounting records The records kept by a company to comply with the Companies Act (1985), which requires companies to keep accounting records sufficient to show and explain their transactions and to prepare accounts that give a true and fair view of their activities. Accounting records take the form of a manual or computerized ledgers, journals, and the supporting documentation.

Accounting reference date The date at the end of an accounting reference period.

Accounting reference period The financial year for a company, as notified to the Registrar of Companies. For companies incorporated after 1 April 1990, it is normally taken as the last day of the month in which the anniversary of incorporation falls.

Accounting series releases Information issued by the Securities and Exchange Commission that represented official accounting pronouncements. They are now known as Financial Reporting Releases.

Accounting standard A definitive standard for financial accounting and reporting established in the form of a Statement of Standard Accounting Practice (SSAP) issued by the Accounting Standards Committee or, since 1990, a Financial Reporting Standard (FRS) issued by the Accounting Standards Board.

Accounting standards board (ASB) Makes, improves, amends and withdraws accounting standards. Many of ASBs specialize in the various fields or sectors of accounting.

Accounting standards committee (ASC) A joint committee of the Consultative Committee of Accountancy Bodies set up in 1976 as a successor to the Accounting Standards Steering Committee. Membership of the ASC was part-time and unpaid; because serious doubts concerning its effectiveness were raised, in 1990 it was replaced by the Accounting Standards Board. In its life the ASC issued 25 Statements of Standard Accounting Practice (SSAPs), many of which were adopted by the ASB.

The ASC was also responsible for issuing Statements of Recommended Practice (SORPs). Despite its failings, the ASC did much to improve the general level of financial reporting and accounting.

Accounting standards steering committee (ASSC) A committee set up in 1970 by the Institute of Chartered Accountants in England and Wales following serious criticism of the accountancy profession in the 1960s; it later became the Accounting Standards Committee.

Accounting system The system designed to record the accounting transactions and events of a business and account for them in a way that complies with its policies and procedures. The basic elements of the accounting system are concerned with collecting, recording, evaluating, and reporting transactions and events.

Accounting theory Tries to describe the role of accounting and is composed of four types of accounting theory: classical inductive theories, income theories, decision usefulness theories, and information economics / agency theories: a. Classical inductive theories are attempts to find the principles on which current accounting processes are based; b. Income theories try to identify the real profit of an organization; c. Decision usefulness theories attempt to describe accounting as a process of providing the relevant information to the relevant decision makers; and, d. The information economics / agency theories of accounting.

Accounting timing difference Is the effect that a defered accounting event would have on the financials if taken into consideration e.g., the release of a deferred tax asset to the income statement as a deferred tax expense (ie the reversal of an accounting timing difference).

Accounting treatement Is the methods, processes and decisions as to any given accounting decision as to how a transaction is to be or is handled in compliance to gaap and all applicable statutes.

Accounts payable (AP) Are trade accounts of businesses representing obligations to pay for goods and services received.

Accounts payable (trade creditors) The amounts owed by a business to suppliers (e.g. for raw materials). Accounts payable are classed as current liabilities on the balance sheet (see circulating assets), but distinguished from accruals and other non-trade creditors (such as the Inland Revenue).

Accounts payable to sales Measures the speed with which a company pays vendors relative to sales. Numbers higher than typical industry ratios suggest that the company is using suppliers assets (cash owed) to fund operations.

Accounts receivable (trade debtors) The amounts owing to a business from customers for invoiced amounts. Accounts receivable are classed as current assets on the balance sheet, but distinguished from prepayments and other non-trade debtors. A provision for bad debts is often shown against the accounts receivable balance in line with the prudence concept. This provision is based on the company's past history of bad debts and its current expectations. A general provision is often based on a percentage of the total credit sales, for example 2% of credit sales made during the period.

Accounts receivable collection period The time given to customers in which to pay their accounts. It is common to require customers to pay within 30 days, although in practice the collection period is often not respected. As late-paying customers can often cause major cash-flow problems, a chronological analysis of outstanding debtor amounts should be produced monthly to ensure that all outstanding amounts are followed up by reminders.

Accounts Receivable Financing Financing where the company's accounts receivable are used as collateral. This type of financing is usually short-term in nature.

Accounts receivable Is a current asset representing money due for services performed or merchandise sold on credit.

Accounts receivable ledger Is the bookkeeping ledger in which all accounts for which cash assets owed to an organization is maintained.

Accounts receivable reserve Is a reserve against bad debt.

Accounts receivable turnover Is the ratio of net credit sales to average accounts receivable, which is a measure of how quickly customers pay their bills.

Accretion Is the adjustment of the difference between the price of a bond purchased at an original discount and the par value of the bond; or, asset growth through internal growth, expansion or natural causes, e.g. the aging of wine or growth of timber/trees.

Accrual accounting A system of accounting in which revenue is recognized when it is earned and expenses are recognized as they are incurred. Accrual accounting is a basic accounting concept used in the preparation of the profit and loss account and balance sheet of a business. It differs from cash-flow accounting, which recognizes transactions when cash has been received or paid. In preparing financial statements for an accounting period using accrual accounting, there will inevitably be some estimation and uncertainty in respect of transactions. The reader of the financial statements therefore cannot have the same high level of confidence in these statements as in those using cash-flow accounting.

Accrual basis of accounting Is wherein revenue and expenses are recorded in the period in which they are earned or incurred regardless of whether cash is received or disbursed in that period. This is the accounting basis that generally is required to be used in order to conform to generally accepted accounting principles (GAAP) in preparing financial statements for external users.

Accrual Is the recognition of revenue when earned or expenses when incurred regardless of when cash is received or disbursed.

Accruals concept One of the four fundamental concepts contained in Statement of Standard

Accounting Practice 2, Disclosure of Accounting Policies, and one of the principles in the Companies Act (1985). It requires that revenue and costs are recognized as they are earned or incurred, not as money is received or paid. Income and expenses should be matched with one another, as far as their relationship can be established or justifiably assumed, and dealt with in the profit and loss account of the period to which they relate. However, if there is a conflict between the accruals concept and the prudence concept, the latter prevails. Accruals and prepayments are examples of the application of the accruals concept in practice. For example, if a rates bill for both a current and future period is paid, that part relating to the future period is carried forward as a current asset (a prepayment) until it can be matched to the future periods.

Accrue To record an item in the accounting books when using the accrual method of accounting. For example, you accrue income when the customer signs a contract, even though you won't receive any cash at that time. When you accrue an item of income or expense can depend on a number of factors including the entity's procedures. IRS requirements here frequently diverge from accounting rules.

Accrued assets Are assets from revenues earned but not yet received.

Accrued benefits Benefits due under a pension scheme in respect of service up to a given time, irrespective of whether the rights to the benefits are vested or not. Accrued benefits may be calculated in relation to current earnings of protected final earnings. Statement of Standard Accounting Practice 24, Accounting for Pension Costs, contains mandatory regulations on accounting for pension costs in financial accounts.

Accrued benefits method An actuarial valuation method in which the actuarial value of liabilities relates at a given date to:

The benefits, including future increases promised by the rules, for the current and deferred pensioners and their dependants;

The benefits that the members assumed to be in service on the given date will receive for service up to that date only.

Allowance may be made for expected increases in earnings after the given date, and for additional pension increases not promised by the rules. The given date may be a current or future date. The further into the future the adopted date lies, the closer the results will be to those obtained by a prospective benefits valuation method.

Accrued Expense An expense that has been incurred, but not yet paid in cash. Similar to accounts payable, but usually associated with nontrade vendors. For example, an electric bill.

Accrued expenses Are expenses incurred during an accounting period for which payment is postponed.

Accrued income Is income earned during a fiscal period but not paid by the end of the period.

Accrued interest Is interest earned but not paid since the last due date.

Accrued inventory Functions as a "clearing" account to establish a liability for inventory physically received into the warehouse, but for which a vendor invoice had not yet arrived.

Accrued liability Are liabilities which are incurred, but for which payment is not yet made, during a given accounting period. Some examples in a manufacturing environment would be: wages, taxes, suppliers/vendors, etc.

Accrued payroll Is a liability arising from employees' salary expense that has been incurred but not paid.

Accrued revenue Is the accumulated revenue as they have been recognized over a given period.

Accumulated amortization Is the cumulative charges against the intangible assets of a company over the expected useful life of the assets.

Accumulated Depreciation total depreciation pertaining to an asset or group of assets from the time the assets were placed in services until the date of the financial statement or tax return. This total is the contra account to the related asset account.

Accumulated dividend A dividend that has not been paid to a holder of cumulative preference shares and is carried forward (i.e. accumulated) to the next accounting period. It represents a liability to the company. The Companies Act requires that where any fixed cumulative dividends on a company's shares are in arrears, both the amount of the arrears and the period(s) in arrears must be disclosed for each class of shares.

Accumulated fund (capital fund) A fund held by a non-profit making organization (such as a club or society) to which a surplus of income over expenditure is credited and to which any deficit is debited. The value of the accumulated funds can be calculated at any time by valuing the net assets (i.e. assets less liabilities) of the organization. The accumulated fund is the equivalent of the capital of a profit-making organization.

Accumulated profits (accumulated earnings) The amount showing in the appropriation of profits account that can be carried forward to the next year's accounts, i.e. after paying dividends, taxes, and putting some to reserve.

Accumulating shares Ordinary shares issued to holders of ordinary shares in a company, instead of a dividend. Accumulating shares are a way of replacing annual income with capital growth; they avoid income tax but not capital gains tax. Usually tax is deducted by the company from the declared dividend, in the usual way, and the net dividend is then used to buy additional ordinary shares for the shareholder.

Acid-test ratio Is an analysis method used to measure the liquidity of a business by dividing total liquid assets by current liabilities.

ACIS *Abbreviation for* Associate of the Institute of Chartered Secretaries and Administrators.

ACMA *Abbreviation for* Associate of the Chartered Institute of Management Accountants.

Acma Is an acronym for Associate Chartered Management Accountant.

Acquisition accounting The accounting procedures followed when one company is taken over by another. The fair value of the purchase consideration should, for the purpose of consolidated financial statements, be allocated between the underlying net tangible and intangible assets, other than goodwill, on the basis of the fair value to the acquiring company. Any difference between the fair value of the consideration and the aggregate of the fair values of the separable net assets (including identifiable intangibles, such as patents, licences, and trademarks) will represent goodwill. The results of the acquired company should be brought into the consolidated profit and loss account from the date of acquisition only.

In certain circumstances merger accounting may be used when accounting for a business combination. Acquisition accounting differs from merger accounting in that shares issued as purchase consideration are valued at their market price, not par value (*see*share premium account), a goodwill figure may arise on consolidation, and pre-acquisition profits are not distributable. Merger accounting treats both parties as if they had always been combined, and values the purchase consideration at par.

Acquisition accounting and merger accounting were covered by Statement of Standard Accounting Practice 23, Accounting for Acquisitions and Mergers, until September 1994, when the Accounting Standards Board issued Financial Reporting Standards 6, Acquisitions and Mergers, and Financial Reporting Standard 7, Fair Values in Acquisition Accounting, which replaced SSAP 23.

Acquisition cost Is the amount, net of both trade and cash discounts, paid for property, plus transportation costs and ancillary costs.

Acquisition Is one company taking over controlling interest in another company.

Act 1. *Abbreviation for* advance corporation tax.

2. *Abbreviation for* Association of Corporate Treasurers. **acting in concert** Having an agreement or understanding, either formal or informal, in which a number of persons act collectively in the affairs of an undertaking.

Active Participation Involvement in a rental real estate activity making management decisions. Requires no specific number of hours.

Active stocks Securities that are frequently traded on a particular stock exchange or in a particular period.

Activity An operation that takes place within an organization and causes costs to be incurred. Examples are receipt of raw materials, production planning, and machine set-up.

Activity based costing (ABC) Is a costing system that identifies the various activities performed in a firm and uses multiple cost drivers (non-volume as well as the volume based cost drivers) to assign overhead costs (or indirect costs) to products. Abc recognizes the causal relationship of cost drivers with activities.

Activity based management (ABM) Converts Activity Based Costing (ABC) into a system to manage an organization. Activity Based Management not only focuses on product, service, customer, channel costing, it also emphasizes: cost drivers (root cause analysis), action plans to improve to achieve strategic objectives, and, performance measures for activities and processes.

Activity drivers In activity based costing (ABC), activity costs are assigned to outputs using activity drivers. Activity drivers assign activity costs to outputs based on individual outputs' consumption or demand for activities. For example, a driver may be the number of times an activity is performed (transaction driver) or the length of time an activity is performed (duration driver).

Activity For the passive activity rules, it's the integral economic unit for measuring a taxpayer's level of participation in a trade or business. One location can have more than one business activity. For example, you might have an S corporation that sells computers at retail and does typesetting working out of the same location. The two may be separate activities. On the other hand, two or more related businesses can also be combined into one activity.

Activity ratio Is any accounting ratio that measures a firm's ability to convert different accounts within their balance sheets into cash or sales.

Activity-based budgeting (ABB) Establishing the activities that incur costs in each function of an organization, defining the relationships between activities, and using the information to decide how much resource should be allowed for each activity in the budget. ABB also attempts to determine how well a particular section of the budget is being managed and to explain any variances from budgeted expenditure.

Activity-based costing (ABC method; activity costing) A system of costing proposed by Professors Johnson and Kaplan in their book *Relevance Lost: The Rise and Fall of Management Accounting* (1987), in which they questioned accounting techniques based on absorption costing. Their method recognizes that costs are incurred by each activity that takes place within an organization and that products (or customers) should bear costs according to the activities they use. Cost drivers are identified, together with the appropriate cost pools, which are used to charge costs to products.

Activity-based management The use made by the management of an organization of activity-based costing. The identification of activities and cost drivers encourages the management to review how projected cost levels compare with the activity levels achieved.

Actual cost Is the amount paid for an asset; not its retail value, market value or insurance value.

Actuals (physicals) Commodities that can be purchased and used, rather than goods traded on a futures contract, which are represented by documents (although the documents give a right to physical possession of the goods, futures contracts are often cancelled out by offsetting a purchase against a sale).

Actuals Is jargon used when speaking of an actual number experienced through some point in time as opposed to a number that is budgeted or projected into the future, e.g., year-to-date sales, expenses, product produced, etc.

Actuarial method Means the method of allocating payments made on a debt between the amount financed and the finance or other charges where the payment is applied first to the accumulated finance or other charges and any remainder is subtracted from, or any deficiency is added to the unpaid balance of the amount financed.

Actuarial science Applies mathematical and statistical methods to finance and insurance, particularly to the assessment of risk. Actuaries are professionals who are qualified in this field.

Actuary A person trained in the mathematics of statistics and probability theory. Some are employed by insurance companies to calculate probable lengths of life and advise insurers on the amounts that should be put aside to pay claims and the amount of premium to be charged for each type of risk. Actuaries also advise on the administration of pension funds. The work of the actuary is separate from that of the accountant, although there are certain areas in which they are required to collaborate, particularly in accounting for pension costs under Statement of Standard Accounting Practice 24.

Ad hoc Is being concerned with a particular end or purpose, e.g., a *ad hoc committee* established to handle a specific subject.

Ad valorem duty A form of stamp duty applied to certain legal instruments. The duty is based on a percentage of the consideration for the transaction effected by the instrument.

Add-ins Is: a. something designed or intended for use in conjunction with another, e.g. accessories to a primary product in a purchase order; or, b. an accessory software program that extends the capabilities of an existing application.

Additional paid in capital Is the amounts paid for stock in excess of its par value; included are other amounts paid by stockholders and charged to equity accounts other than capital stock.

Additional voluntary contribution (AVC) Additional pension-scheme contributions that employees can make, at their discretion, in order to increase the benefits available from their pension fund on retirement. Additional voluntary contributions can be paid into an employers' scheme or to a scheme of the employee's choice (a free-standing AVC). The employee's total pension contributions must not exceed the limit of 15% of current salary. AVCs are restricted to the difference between 15% of salary and the standard pension contributions. AVCs will be used to increase the pension payable and only in exceptional circumstances will they increase the tax-free lump sum payable on retirement.

Add-On Interest. Interest that isn't paid by the debtor, but added to the principal amount.

Adequate disclosure Is sufficient information in footnotes, as well as financial statements, indicative of a firm's financial status.

Adf, In invoicing, is After Deducting Freight.

Adjudication 1. The judgment or decision of a court, especially in bankruptcy proceedings. 2. An assessment by the Commissioners of Inland Revenue of the amount of stamp duty due on a document. A document sent for adjudication will either be stamped as having no duty to pay or the taxpayer will be advised how much is due. An appeal may be made to the High Court if the taxpayer disagrees with the adjudication.

Adjunct account Is an account that accumulates either additions or subtractions to another account. Thus the original account may retain its identity. Examples include premiums on bonds payable, which is a contra account to bonds payable; and accumulated depreciation, which is an offset to the fixed asset.

Adjusted Basis Used for determining depreciation and gain or loss on the disposition of an asset. Your adjusted basis in an asset is your beginning basis, decreased by depreciation, depletion or any Sec. 179 expense taken or increased by capital additions. For example, you purchase a machine for $10,000 (your basis) and take a Sec. 179 expense deduction of $1,000 and depreciation of $2,000 in the first year. At the end of the year your adjusted basis is $7,000. Note. Even professionals often say basis when they really mean adjusted basis.

Adjusted book value Your MBA performs two types of adjusted book value analysis. Tangible Book Value and Economic Book Value (also known as Book Value at Market).

Tangible Book Value is different than book value in that it deducts from asset value intangible assets, which are assets that are not hard (e.g., goodwill, patents, capitalized start-up expenses and deferred financing costs).

Economic Book Value allows for a book value analysis that adjusts the assets to their market value. This valuation allows valuation of goodwill, real estate, inventories and other assets at their market value.

Adjusting entries Are special accounting entries that must be made when you close the books at the end of an accounting period. Adjusting entries are necessary to update your accounts for items that are not recorded in your daily transactions.

Adjusted Gross Income Gross income reduced by business and other specified expenses of individual taxpayers. The amount of adjusted gross income affects the extent to which medical expenses, non business casualty and theft losses and charitable contributions may be deductible. It is also an important figure in the basis of many other individual planning issues as well as a key line item on the IRS form 1040 and required state forms.

Adjusted trial balance A trial balance to which adjustments have been made; for example, there may be prepayments and accruals that need to be taken into account. Separate columns are used for these adjustments, one for debits and one for credits. Once the trial balance has been adjusted in this way, it forms the basis for the profit and loss account and balance sheet.

Adjusting Entries are accounting entries made at the end of an accounting period to allocate items between accounting periods.

Adjusting Entry An entry made at the end of the period to assign expenses to the period for which they were incurred and revenue to the period in which it was earned. They are also used to correct entries that could not be accurately made before the end of the year.

Adjusting events (post-balance-sheet events) Events that occur between a balance-sheet date and the date on which financial statements are approved, providing additional evidence of conditions existing at the balance-sheet date. For example, a valuation of a property held at the balance-sheet date that provides evidence of a permanent diminution in value would need to be adjusted in the financial statements. Such events include those that, because of statutory or conventional requirements, are reflected in financial statements. Statement of Standard Accounting Practice 17, Accounting for Post Balance Sheet Events, requires that such material events should be reflected in the actual account balances in the financial accounts, where they purport to give a true and fair view.

A non-adjusting event concerns conditions that did not exist at the balancesheet date; such events may need to be disclosed in the notes to the accounts. An issue of shares after the post-balance-sheet period would be an example of a non-adjusting event. If an event would be classed as non-adjusting, but the application of the going-concern concept to the whole, or a material part, of the company is not appropriate, it should be treated as an adjusting event. For example, if serious industrial action has occurred, which if it continues could threaten the continued existence of the business, an appropriate provision should be made in the accounts.

Adjusting Journal Entry An accounting entry made into a subsidiary ledger called the General journal to account for a periods changes, omissions or other financial data required to be reported "in the books" but not usually posted to the journals used for typical period transactions (the cash receipts journal, cash disbursements journal, the payroll journal, sales journal and so on) the entry is posted to the general ledger accounts directly and usually will be numbered itself, dated and have an explanation. Example: AJE# 1 12-31-2003, debit Cash in bank $1,000. Credit interest income $1,000, to record interest income on business bank account at year end, not recorded in cash receipts journal but credited by the bank. (Cross-reference bank reconciliation and account where it was found)

Adjustment Can be either: 1. an increase or decrease to an account resulting from ADJUSTING ENTRIES; or,

2. changing an account balance due to some event, e.g., adjustment of an account due to the return of merchandise for credit.

Administration cost variance The difference between the administration overheads budgeted for in an accounting period and those actually incurred.

Administration order 1. An order made in a county court for the administration of the estate of a judgment debtor. The order normally requires the debtor to pay the debts by instalments; so long as this is done, the creditors referred to in the order cannot enforce their individual claims by other methods without the leave of the court. Administration orders are issued when the debtor has multiple debts but it is thought that bankruptcy can be avoided.

2. An order of the court under the Insolvency Act (1986) made in relation to a company in financial difficulties with a view to securing its survival as a going concern or, failing that, to achieving a more favourable realization of its assets than would be possible on a liquidation. While the order is in force, the affairs of the company are managed by an administrator.

Administration overheads (administration expenses) The part of the general overheads of an organization that are incurred in carrying out its administrative activities. They include general office salaries, stationery, telephones, etc.

Administrative Dissolution The dissolution of a corporation by the Secretary of State or similar state authority as a result of the corporation's failure to file corporate tax returns, file an annual report, maintain a registered agent, etc.

Administrative Expense Sometimes part of general expense, it's an expense that isn't directly associated with selling, manufacturing, distributing, etc. but part of overall management such as accounting, general management, etc.

Administrative receiver A receiver appointed by the holder of a floating charge covering the whole, or substantially all, of a company's assets in order to recover money due to a secured creditor. The administrative receiver has the power to sell the assets that are secured by the charge or to carry on the company's business.

Administrative Services Only Where one party provides only administrative or clerical services to an employee benefit plan. (Typically the employer is the administrator.) Another party acts as the trustee.

Administrator 1. Any person appointed by the courts, or by private arrangement, to manage the property of another.

2. Any person appointed by the courts to take charge of the affairs of a deceased person, who

died without making a will. This includes collection of assets, payment of debts, and distribution of the surplus to those persons entitled to inherit, according to the laws of intestacy (*see*intestate). The administrator must be in possession of letters of administration as proof of the authority vested by the courts.

Admitted assets Are assets whose values are permitted by state law to be included in the annual statement.

Adobe acrobat Computer software used for viewing high-quality documents. Consisting of text and graphics, it is suitable for viewing electronic copies of annual accounts on the Internet.

ADR *Abbreviation for* American depositary receipt.

ADR Is American Depository Receipts.

ADSCR Is Average Debt Service Coverage Ratio.

ADST *Abbreviation for* approved deferred share trust.

Advance A payment on account or a loan. In a partnership it refers to any amount paid into the partnership in excess of the agreed capital contributions. Under the Partnership Act (1890) interest is payable on advances, unless the partners agree to the contrary. On dissolution the advance would be repaid after any external creditors were paid but before the distribution of capital to the partners.

Advance corporation tax (ACT) Formerly, an advance payment of corporation tax. It was paid when a company made a qualifying distribution. For the financial year 1 April 1998 to 31 March 1999 ACT was calculated at a rate of 20/80 dividend paid. The ACT was due for payment 14 days after the return period in which the dividend was paid. ACT paid in an accounting period could be set against the gross corporation tax due for the period, up to the maximum set-off of 20% of total profits. ACT was abolished on 6 April 1999, although some aspects of ACT continue. *See* shadow ACT.

Advance Is an amount paid before it is earned, e.g. payment ahead of actual expenditures or phase completion of a construction project.

Advance payment bond A guarantee that any advance payments made by a customer will be reimbursed if the company cannot fulfil its obligations under the relevant contract. Such guarantees are normally given by the company's bankers, who are indemnified by the company.

Advancement Payment by a parent (during his or her lifetime) to a child of an amount that the child would receive as beneficiary, or as heir, on the death of that parent.

Advances Funds made available to another party. In the case of a loan, it's the disbursement of funds under a note. In tax parlance it often means something between a formalized loan and equity. For example, a shareholder puts money into a corporation with the intention of being paid back shortly.

Adverse An audit opinion that the financial statements as a whole are not in conformity with U.S. gaap.

Adverse opinion Is expressed if the basis of accounting is unacceptable and distorts the financial reporting of the corporation. If auditors discover circumstances during the course of the audit that make them question whether they can issue an unqualified opinion, they should always discuss those circumstances with the client before issuing the opinion, in order to determine whether it is possible to rectify the problem.

Adverse variance (unfavourable variance) In standard costing and budgetary control, the differences between actual and budgeted performance of an organization if the differences create a deduction from the budgeted profit. For example, this may occur if the actual sales revenue is less than that budgeted or the actual costs exceed budgeted costs. *Compare* favourable variance.

Advice note A document issued by a supplier of goods advising the customer that the goods have been sent. The advice note is generally received before the goods themselves.

Advising bank Is a bank in the exporter's country handling a letter of credit.

Advisory Services are a consulting service in which the CPA develops the findings, conclusions, and recommendations presented for client decision-making. This differs from attestation, where the cpa expresses a conclusion about a written assertion of another.

AFE, dependent upon usage, is an acronym for Authorization for Expenditure or Average Funds Employed.

Affiliate Is a relationship between two companies when one company owns substantial interest, but less than a majority of the voting stock of another company, or when two companies are both subsidiaries of a third company.

Affiliated Company Company, or other organization related through common ownership, common control of management or owners, or through some other control mechanism, such as a long-term lease.

Affinity card A credit card issued to an affinity group (such as the members of a club, college, etc. An affinity card is linked to a particular charity; the credit-card company pledges to make a donation to a specified charity for each card issued and may also donate a small proportion of the money spent by card users, affinity cards are sometimes called charity cards.

After date The words used in a bill of exchange to indicate that the period of the bill should commence from the date inserted on the bill, e.g. '. . . 30 days after date, we promise to pay . . .'. *Compare* after sight; at sight.

After sight The words used in a bill of exchange to indicate that the period of the bill should commence from the date on which the drawee is presented with it for acceptance, i.e. has sight of it. *Compare* after date; at sight.

After-Acquired Clause A clause in a mortgage or similar loan document that provides that any mortgageable property acquired after the mortgage is signed will be considered additional security for the loan.

Afudc Is Accumulated Funds Used During Construction or Allowance for Funds Used During Construction.

Age allowance The personal allowance available to taxpayers aged 65 and over. The age allowance for taxpayers aged 65-74 is £5720 and for those 75 and over is £5980, for 1999-2000. There is an income limit of £16,800 for age allowance. The allowance is reduced at a rate of £1 off the allowance for every £2 by which the income exceeds the income limit, until the basic personal allowance is reached, which is £4335 for 1999-2000.

Age analysis A listing of debtors' accounts (i.e. the amounts owing to a business), usually produced monthly, which analyses the age of the debts by splitting them into such categories as those up to one month old, two months old, and more than two months old. As a basic part of the credit control system, the analysis should be regularly examined so that any appropriate follow-up action may be taken.

Aged trial balance Alphabetically lists accounts receivable with outstanding balances. It displays one balance for every account by age and is typically produced only once on demand to check receivable details against other reports.

Agency agreement An agreement between a customer and a bank allowing the customer to bank cheques at a branch of that bank, usually for logistical reasons. The cheques thus enter the clearing system, although the customer does not have an account with that bank. A charge is made by the bank for this service.

Agency costs Is the incremental costs of having an Agent make decisions for a principal.

Agency fee (facility fee) An annual fee paid to an agent for the work and responsibility involved in managing a loan after it has been signed.

Agency Fund Fund consisting of assets where the holder agrees to remit the assets, income from the assets, or both, to a specified beneficiary in due course or at a specified time.

Agency Is the relationship between a principal and an agent wherein the agent is authorized to represent the principal in certain transactions.

Agency relationship A relationship in which a principal engages an agent to perform some service on his or her behalf; this involves delegating authority by the principal. As it has to be assumed that the agent will not always act in the best interests of the principal, the principal incurs costs in monitoring and controlling the behaviour of the agent. In turn, the agent will incur bonding costs in convincing the principal that the interests of the principal will not be harmed. The agent may also take decisions that do not always maximize the welfare of the principal; these decisions can result in what is called a residual loss. The sum of the monitoring and bonding costs together with the residual loss form the agency costs. Even in an unregulated economy managers may choose to provide financial statements, examined by independent auditors, to shareholders and creditors in order to reduce agency costs. By supplying informative financial statements to external parties on the basis of information held by them, managers may avoid costly disputes and more expensive mechanisms for controlling their actions. These aspects of an agency relationship are sometimes referred to as agency theory.

Agent A person or entity authorized to act on behalf of another party. While a person can act on his own, a corporation can only act through its agents.

Aggregate (aggregated) Constituting the whole. Aggregate expenses include expenses of all divisions combined for the entire year.

Aggregate theory Is a theory of partnership taxation in which a partnership is considered as an aggregate of individual co-owners who have bound themselves together with the intention of sharing gains and loses; under this theory, the partnership itself has no existence separate and apart from its members.

Aggregation The combination of several business operations into a larger unit. Primarily used to combine passive trade or business undertakings into one or more activities in order to determine whether a taxpayer is a material participant.

Agi (Annual Gross Income) is annualized total income prior to exclusions and deductions.

Aging of Accounts Receivable A way to estimate bad debts by analyzing individual accounts receivable according to the length of time they have been outstanding. For example, outstanding accounts may be split into those 30 days or less outstanding, 60 days or less outstanding, etc. The analysis includes arriving at the balance for all the accounts in a group.

Agreed bid A takeover bid that is supported by a majority of the shareholders of the target company, whereas a **hostile bid** is not welcomed by the majority of the shareholders of the target company.

Agreed upon procedures Are used when a client retains an external auditor to perform specific tests and procedures and report on the results. Examples might include special reviews of loan portfolio or internal control systems. In performing agreed-upon procedures, the auditor provides no opinion, certification, or assurance that the assertions being made in the financial statements are free from material misstatement. The users of reports based on agreed-upon procedures must draw their own conclusions on the results of the tests reported. For example, an external auditor could be asked to look at a certain number of corporation loan files and document which of the required forms are in the files. The auditor would report on the selection and the results of the procedures performed but would not provide a formal opinion with conclusions drawn from the results of the procedures.

Agricultural property relief An inheritance tax relief available on the transfer of agricultural property when certain conditions are met. For 1999-2000 the relief is at a rate of 100% or 50%. The 100% rate applies if the transferor has vacant possession of the property. The 50% rate applies if the property was let before 1 September 1995 and the transferor does not have the right to vacant possession within the following 24 months.

AIAB *Abbreviation for* Associate of the International Association of Bookkeepers.

AIBD *Abbreviation for* Association of International Bond Dealers.

AICPA *Abbreviation for* American Institute of Certified Public Accountants.

Aicpa Is the American Institute [of] Certified Public Accountants.

Air waybill Is a bill of lading and contract between the shipper and the airline for delivery of goods to a specified location, and sometimes with specified delivery date/time. Non-negotiable, but serves as receipt from the airline to prove that goods were received.

Aje *Abbreviation for* adjusting journal entry.

Alienation of assets The sale by a borrower of some or all of the assets that form the actual or implied security for a loan. It is therefore common practice to include a clause in the document setting up a loan, which restricts the disposal of the borrower's assets to specific circumstances.

Alimony payment Payments in a divorce settlement. They are treated as deductions from adjusted gross income by the payer, but the recipient treats them as income for tax purposes.

All other current assets Relates to any other current assets. Does not include prepaid items.

All other current liabilities Includes any other current liabilities, including bank overdrafts and accrued expenses.

All other expenses (NET) includes miscellaneous other income and expenses (net), such as interest expense, miscellaneous expenses not included in general and administrative expenses, netted against recoveries, interest income, dividends received and miscellaneous income.

All other non-current assets Are prepaid items and any other non-current assets.

All other non-current liabilities Means any other non-current liabilities, including subordinated debt, and liability reserves.

All-financial resources concept The basis for preparing a statement of changes in financial position. The statement presents transactions affecting working capital and transactions not affecting working capital if they are of a material noncurrent nature, such as the acquisition of a fixed asset in exchange for a long-term liability.

All-inclusive income concept A concept used in drawing up a profit and loss account, in which all items of profit and loss are included in the statement to arrive at a figure of earnings; Although it is claimed that this basis gives the fullest picture of the operation of an enterprise, it does lead to a volatility in earnings figures as one-off costs, such as redundancies and sale of assets, will be included. To assist prediction of future profits, users are often more interested in the sustainable profits, which are shown using reserve accounting, which is the alternative basis for drawing up a profit and loss account.

Allocate Is to distribute according to a plan or set apart for a special purpose. Examples:

a. spread a cost over two or more accounting periods;

b. charge a cost or revenue to a number of departments, products, processes or activities on a rational basis.

Allocation 1. (cost allocation) Charging the whole element of a cost directly to a cost centre or cost unit because the cost centres or cost units are directly incurring those costs. If a cost cannot be allocated in this way the techniques of apportionment or absorption are used.

2. The number of shares in a new issue allotted

(see allotment) to an investor or syndicate of investors.

Allocation Base An approach for assigning a given cost to two or more departments of a business.

Allocation Is the act of distributing by allotting or apportioning; distribution according to a plan, e.g., allocating costs is the assignment of costs to departments or products over various time periods, products, operations, or investments.

Allonge Is a piece of paper attached to a negotiable instrument to allow space for writing endorsements.

All-or-None Bid A bid for a number of different items in which the bidder will not accept a partial award, but only an award for all the items, services, etc. included in the bid.

Allotment A method of distributing previously unissued shares in a limited company in exchange for a contribution of capital. An application for such shares will often be made after the issue of a prospectus on the flotation of a public company or on the privatization of a state-owned industry. The company accepts the application by dispatching a letter of allotment to the applicant stating how many shares have been allotted; the applicant then has an unconditional right to be entered in the register of members in respect of those shares. If the number of shares applied for exceeds the number available (oversubscription), allotment is made by a random draw or by a proportional allocation. Applicants that have been allotted fewer shares than they applied for receive a cheque for the unallotted balance (an application must be accompanied by a cheque for the full value of the shares applied for).

Allotted shares Shares distributed by allotment to new shareholders (allottees). The shares form part of the allotted share capital.

Allowance 1. An amount deducted from an invoice; for example, to compensate for damaged goods.

2. An amount given to an employee for expenses, such as the cost of travel.

3. *See*tax allowance.

Allowance for bad debts Is an account established to record a subtraction from Accounts receivable, to allow for those accounts that will not be paid.

Allowance for Doubtful Accounts An offset, or contra account, to accounts receivable to reflect the estimated collection losses on outstanding accounts receivable. The allowance reduces revenue. Such an allowance is generally not allowed for tax purposes. Also known as an allowance for bad debts and allowance for uncollectible accounts.

Allowance for notes receivable losses Is an account maintained at a level considered adequate to provide for probable losses. The provision is increased by amounts charged to earnings and reduced by net charge-offs. The level of allowance is based on management's evaluation of the portfolio, which takes into account prevailing and anticipated business and economic conditions and the net realizable value of securities held.

Allowance for sampling risk The difference between a sample estimate and the projected population characteristic at a specified sampling risk. This allowance is also the difference between the expected error rate and the tolerable deviation rate.

Allowance method Is the accepted way to account for bad debt. Bad debt expense may be based on the percent of credit sales for the period, an aging of the accounts receivable balance at the end of the period, or some other method, e.g., percent of accounts receivable.

Allowance, Within Sales, is a concession granted to customers for unsatisfactory goods or services. Reduces sales because a portion of the sale has not been earned.

All-purpose financial statements Financial statements intended to be seen by a diverse range of interest groups. The major drawback of an all-purpose approach to financial reporting is that none of the groups of users receive financial statements that include the information they specifically require; to attempt to produce one document to satisfy the needs of all groups is impractical. The result is a compromise document that attempts to satisfy the needs of most users reasonably well, but in the end may satisfy no one.

All-Risk An insurance policy covering real or personal property against any loss except those specifically excluded.

Alpha Is the measurement of returns from an investment in excess of market returns. It represents the amount expected from fundamental causes, e.g. the growth rate in earnings per share. This contrasts with beta which is a measure of risk or volatility.

Alpha risk and beta risk Risks that occur in the sampling procedure undertaken by an auditor. An auditor may reject a population that should have been accepted (alpha risk) or accept it when it should have been rejected (beta risk).

Alternate payee endorsement normally, it is when one payee endorses a draft over to another entity, then the new or alternate payee endorses the draft near the original payees endorsement (signature).

Alternative accounting rules Alternative rules for valuing certain assets under the Companies Act (1985). These rules modify the historical-cost convention. According to the modified rules intangible assets may be valued at current cost (with the exception of goodwill). Tangible fixed assets may be included at market value, determined as at their last valuation date, or at current cost. Fixed-asset investments may be valued at market value, determined as at their last valuation date, or at a value determined on any basis considered by the directors to be appropriate to the circumstances. Current-asset investments and stock may be included at current cost, unless the net realizable value is lower, in which case this must be used. Any permanent diminution in value must be provided for. Accounts prepared under the alternative accounting rules are described as being prepared under the modified historical-cost convention.

Alternative budgets Financial or quantitative budgets produced for consideration by the management of an organization in addition to the budgets adopted. The alternative budgets are based upon alternative policies, which may or may not be pursued by the organization at a later date.

Alternative costs 1. The costs that would apply if an alternative set of assumptions were adopted.

2. The benefits foregone when a second ranked alternative is compared to the chosen alternative. *See*opportunity costs.

Alternative Dispute Resolution An alternative to formal litigation which includes techniques such as arbitration, mediation, and a non-binding summary jury trial.

Alternative investment market A subsidiary market of the London Stock Exchange that became the successor to the Unlisted Securities Market in 1995. It provides an opportunity for smaller companies with growth prospects to raise capital and have their shares traded in a market without the expense of a full market listing.

Alternative Minimum Tax (AMT) Tax imposed to back up the regular income tax imposed on corporation and individuals to assure that taxpayers with economically measured income exceeding certain thresholds pay at least some income tax.

Altman z-score Reliably predicts whether or not a company is likely to enter into bankruptcy within one or two years:

If the Z-Score is 3.0 or above - bankruptcy is not likely.

If the Z-Score is 1.8 or less - bankruptcy is likely.

A Z-Score between 1.8 and 3.0 is the gray area, i.e., a high degree of caution should be used.

Probabilities of bankruptcy within the above ranges are 95% for one year and 70% within two years. A Z-Score between the two is the gray area. Obviously a higher Z-Score is desirable. It is best to assess each individual company's Z-Score against that of the industry. In low margin industries it is possible for Z-Scores to fall below the above. In such cases a trend comparison to the industry over consecutive time periods may be a better indicator. It should be remembered that a Z-Score is only as valid as the data from which it was derived i.e. if a company has altered or falsified their financial records/books, a Z-Score derived from those "cooked books" is of lesser use.

Altman, edward Developed the "Altman Z-scpre " by examining 85 manufacturing companies. Later, additional "Z-Scores" were developed for private manufacturing companies (Z-Score - Model A) and another for general/service firms (Z-Score - Model B). VentureLine selects the "Z-Score" appropriate for each firm based upon the questionnaire input from the listing company. A "Z-Score" is only as valid as the data from which it was derived i.e. if a company has altered or falsified their financial records/books, a "Z-Score" derived from those "cooked books" is of highly suspect value.

Orignal Z-score (For Public Manufacturer) If the Z-Score is 3.0 or above - banruptcy is not likely. If the Z-Score is 1.8 or less - bankruptcy is likely. A score between 1.8 and 3.0 is the gray area. Probabilities of bankruptcy within the above ranges are 95% for one year and 70% within two years. Obviously a higher Z-Score is desirable.

Model A Z-score (For Private Manufacturer) Model A is appropriated for a private manufacturing firm. Model A should not be applied to other companies. A Z-Score of 2.90 or above indicates that bankruptcy in not likely, buyt a Z-Score of 1.23 or below is a strong indicator that bankruptcy is likely. Probabilities of bankruptcy within the above ranges are 95% for one year and 70% within two years. Obviously a higher Z-Score is desirable.

Model b z-score (For Private General Firm) Model B Z-Score is appropriate for a private general non-manufacturing firm. A Z-Score of 2.60 or above indicates that bankruptcy in not likely, buyt a Z-Score of 1.10 or below is a strong indicator that bankruptcy is likely. Probabilities of bankruptcy within the above ranges are 95% for one year and 70% within two years. A Z-Score between the two is the gray area. Obviously a higher Z-Score is desirable.

Amalgamation Is a consolidation or merger, as of several corporations. In business, the distinction being that the surviving entity incorporates the asset base of others into its base.

American accounting association (AAA) An influential organization with a membership consisting primarily of academic accountants. Originally founded in 1916 as the American Association of University Instructors in Accounting, the Association adopted its present name in 1936. The Association has contributed to the development of accounting theory through the publication of reports, papers, and journals.

American depositary receipt (ADR) A receipt issued by a US bank to a member of the US public who has bought shares in a foreign country. The certificates are denominated in US dollars and can be traded as a security in US markets. The advantages of ADRs are the reduction in administration costs and the avoidance of stamp duty on each transaction.

American Institute of Certified Public Accountants (AICPA) National professional membership organization that represents practicing certified public accountants (CPAs). The AICPA establishes ethical and auditing standards as well as standards for other services performed by its members. Through committees, it develops guidance for specialized industries. It participates with the financial accounting standards board (FASB) and the government accounting standards board (GASB) in establishing accounting principles.

American option An option that can be exercised on any business day prior to its expiry date. *Compare* European option.

American society of women accountants An organization whose membership consists of practising women accountants; its aim is to promote women's interests in the accounting profession.

Amortization 1. Is the gradual reduction of a debt by means of equal periodic payments sufficient to meet current interest and liquidate the debt at maturity. When the debt involves real property, often the periodic payments include a sum sufficient to pay taxes and hazard insurance on the property. 2. is the process of spreading the cost of an intangible asset over the expected useful life of the asset. For example: a company pays $100,000 for a patent, they amortize the cost over the 16 year useful life of the patent. 3. the deduction of capital expenses over a specific period of time. Similar to depreciation, it is a method of measuring the "consumption" of the value of long-term assets like equipment or buildings.

Amortization schedule A schedule that summarizes the dates on which specified amounts must be paid in the repayment of a loan.

Amortized cost That part of the value of an asset that has been written off; it represents the accumulated depreciation to date.

Amortizing loan A loan in which the repayment is made in more than one instalment. *Compare* bullet loan.

Analysis codes, In accounting, represent software driven analysis methods which are independent of the normal grouping of account codes. An analysis code allows management to collect and monitor income and expenditure for a particular function or event that is not captured by the use of a project code or class, i.e. allows for much finer segmentation.

Analysis of variance (ANOVA) An analysis of the variance in the total profit of an organization into sub-variances to indicate the major reasons for the difference between budgeted profit and actual profit. Typically, the total profit variance may be analysed into the following sub-variances: • sales margin volume variance • sales margin price variance • direct materials total cost variances • direct labour variances • variable overhead cost variance • overhead efficiency or productivity variance • fixed overhead expenditure variance • overhead volume variance

Analytical auditing An analytical approach to an audit that compares figures and other financial and non-financial data, either internally or with external data, to decide whether the picture presented appears to be reasonable. Analytical auditing is used in the initial planning stage of an audit, during the audit, or in its final stages when the tests of details have been completed. *See also*analytical review.

Analytical Procedures Substantive tests of financial information which examine relationships among data as a means of obtaining evidence. Such procedures include: (1) comparison of financial information with information of comparable prior periods; (2) comparison of financial information with anticipated results (e.g., forecasts); (3) study of relationships between elements of financial information that should conform to predictable patterns based on the entity's experience; (4) comparison of financial information with industry norms.

Analytical review An audit test designed to provide evidence of the completeness, accuracy, and validity of financial accounts and statements. Analytical review is a type of substantive test that may be used in planning and undertaking an audit. It works by comparing figures and other financial and non-financial data, either internally or with external data, to decide whether they are reasonable. Procedures range from simple comparisons (e.g. comparing current amounts with those of earlier years) to more sophisticated methods using computer audit software and advanced statistical techniques (e.g. multiple regression analysis).

Analyze Identify and classify items for further study.

Ancillary credit business A business involved in credit brokerage, debt adjusting, debt counselling, debt collecting, or the operation of a creditreference agency. Credit brokerage includes the effecting of introductions of individuals wishing to obtain credit to persons carrying on a consumer-credit business. Debt adjusting is the process by which a third party negotiates terms for the discharge of a debt due under consumer-credit agreements or consumer-hire agreements with the creditor or owner on behalf of the debtor or hirer. The latter may also pay a third party to take over an obligation to discharge a debt or to undertake any similar acitivity concerned with its liquidation. Debt counselling is the giving of advice (other than by the original creditor and certain others) to debtors or hirers about the liquidation of debts due under consumer-credit agreements or consumer-hire agreements. A credit-reference agency collects information concerning the financial standing of individuals and supplies this information to those seeking it. The Consumer Credit Act (1974) provides for the licensing of ancillary credit businesses and regulates their activities.

Ancillary Relates to something extra or of lesser importance. For example, ancillary revenue would be revenue derived from the provisioning of products or services that are not considered to be primary to the generation of revenue.

Angel investor Is a private wealthy individual that has no association with a venture capital firm, investment fund, etc. The "angel" invests his/her private money into what he/she believes to be promising opportunities, i.e., normally startup companies. Sometimes two or more "angels" will jointly invest into opportunitites to spread the risk.

Annual accounts (annual report; report and accounts) The financial statements of an organization, generally published annually. Incorporated bodies have a legal obligation to publish annual accounts and file them at Companies House. Annual accounts consist of a profit and loss account, balance sheet, cash-flow statement (if required), and statement of total recognized gains and losses, together with supporting notes and the directors' report and auditors' report. Companies falling into the legally defined small companies and medium-sized companies categories may file abbreviated accounts that may not have been audited. Some bodies are regulated by other statutes; for example, many financial institutions and their accounts will have to comply with their own regulations. Non-incorporated bodies, such as partnerships, are not legally obliged to produce accounts but may do so for their own information, for their banks if funding is being sought, and for the Inland Revenue for taxation purposes.

Annual exemption An exempt transfer under inheritance tax legislation allowing £3000 to be given each year as a gift without liability to inheritance tax. This has remained unchanged since 6 April 1981. Husband and wife each have their own exemption. If the exemption is not used or not fully used during a fiscal year, the amount not used can be carried forward to the next tax year only, to cover gifts made in that following year.

Annual general meeting (AGM) An annual meeting of the shareholders of a company, which must be held every year; the meetings may not be more than 15 months apart. Shareholders must be given 21 days' notice of the meeting. The usual business transacted at an AGM is the presentation of the audited accounts, the appointment of directors and auditors, the fixing of their remuneration, and recommendations for the payment of dividends. Other business may be transacted if notice of it has been given to the shareholders.

Annual Meeting A meeting of the shareholders held each year to elect directors of the corporation, present the annual report, and conduct other business including items which requires shareholder approval.

Annual percentage rate (APR) The annual equivalent rate of return on a loan or investment in which the rate of interest specified is chargeable or payable more frequently than annually. Most investment institutions are now required by law to specify the APR when the interest intervals are more frequent than annual. Similarly those charge cards that advertise monthly rates of interest (say, 2%) must state the equivalent APR. In this case it would be [(1.02)12 - 1] = 26.8%.

Annual report Is the requirement for all public companies to file an annual report with the Securities and Exchange Commission detailing the preceding year's financial results and plans for the upcoming year. Its regulatory version is called "Form 10 K." The report contains financial information concerning a company's assets, liabilities, earnings, profits, and other year-end statistics. The annual report is also the most widely-read shareholder communication.

Annual return A document that must be filed with the Registrar of Companies within 14 days of the annual general meeting of a company. Information required on the annual return includes the address of the registered office of the company and the names, addresses, nationality, and occupations of its directors. The financial statements, directors' report, and auditors' report must be annexed to the return. Legally defined small companies and medium-sized companies may file abbreviated accounts. Unlimited companies are exempt from filing the financial statements and dormant companies may not have to be audited. There are penalties for late filing of accounts.

Annualize Is a statistical technique whereby figures covering a period of less than one year are extended to cover a 12-month period. The technique, to be accurate, must take seasonal variations into consideration.

Annuity certain An annuity in which payments continue for a specified period irrespective of the life or death of the person covered. In general, annuities cease on the death of the policyholder unless they are annuities certain.

Annuity method A method of calculating the depreciation on a fixed asset. The objective of the method is to produce an approximately constant annual charge for the total depreciation and cost of capital of an asset. It is calculated in such a way that a low depreciation charge is made in the earlier years when interest costs are high, and a higher charge is made in the later years when interest costs are lower. It is less popular than the straight-line method or the diminishing-balance method.

Annuity, In finance, is a series of fixed payments, usually over a fixed number of years; or for the lifetime of a person, in which case it would be called a life-contingent annuity or simply life annuity.

Anomaly, Generally, is a deviation from the common rule. It is an irregularity that is difficult to explain using existing rules or theory. In securities, it is an unexplained or unexpected price or rate relationship that seems to offer an opportunity for an arbitrage-type profit, although not typically without risk. Examples include the tendency of small stocks to outperform large stocks, of stocks with low price-to-book value ratios to outperform stocks with high price-to-book value ratios, and of discount currency forward contracts to outperform premium currency forward contracts.

Ante-date To date a document before the date on which it is drawn up. This is not necessarily illegal or improper. For instance, an ante-dated cheque is not in law invalid.

Anti-dilution Condition that may increase the computation of earnings per share (EPS) or decrease loss per share solely because of the inclusion of common stock equivalents, such as stock options, warrants, convertible debt or convertible preferred stock, nomination or selection of the independent Auditors.

Anton piller order A court injunction ordering the defendant to allow the plaintiff to enter named premises to search for and take copies of specified articles and documents. These orders are obtained by the plaintiff 'ex parte' (without the other party being present in court) to enable the preservation of evidence in cases in which the plaintiff has grounds to think it will be destroyed. It is especially useful in 'pirating' cases. The order is not a search warrant, so entry cannot be forced, but the defendant will be in contempt of court if entry is refused. A solicitor must serve the order. It is named after an order made in the High Court in 1976 against Anton Piller KG.

Apb 18 Is the Accounting Principles Board Equity Method of Accounting for Investments in Common Stock.

Apb Is Accounting Principles Board or an Accounting Principles Board opinion (GAAP).

Apic Is an acronym for Additional Paid-In-Capital (finance/business).

Application and allotment account A ledger account used in the process of applications for and allotment of a company's share capital. When the shares are offered, potential shareholders (applicants) apply to buy them on an application form with a cheque to cover the cost of the shares. This is known as the application process. On receipt of the applicants' money, the company debits the bank account with the cash received and credits an application and allotment account. When the shares are allocated to the applicants they become the allottees, i.e. the new shareholders; this is known as the process of allotment. The book-keeping entries on allotment involve debiting the application and allotment account and crediting the share capital or share premium, as appropriate. If the applications exceed the number of shares available, each applicant receives a scaled down number of shares and the excess application money is returned. The application and allotment account may also be split into two separate accounts: the application account and the allotment account.

Application controls Controls relating to the transactions and standing data for each computer-based accounting system; they are, therefore, specific to each such application. Application controls, which may be manual or programmed, are designed to ensure the completeness and accuracy of the accounting records and the validity of the entries made. An example of an application control designed to check completeness would be a manual or programmed agreement of control totals, i.e. the total of the source documents and the total of the amounts input would be compared. Other examples of application controls include checks to ensure that the correct master files and standing data files are used, that data has been updated, and that output reports are both complete and accurate. See also computerassisted audit techniques.

Application for listing The process by which a company applies to a stock exchange for its securities to be traded on that exchange. In obtaining the listing a company will be required to abide by the rules of the exchange. The advantage for a company in obtaining a listing is that it will be able to raise funds by issuing shares on the stock exchange and the marketability of the shares it issues will attract investors.

Application for quotation An application by a public limited company for a quotation on the London Stock Exchange. The company is scrutinized by the Quotations Committee to see if it complies with the regulations and if its directors have a high reputation. If the application is accepted the company is given a quotation on one of the Stock Exchange's markets.

Application form A form, issued by a newly floated company with its prospectus, on which members of the public apply for shares in the company.

Applications software Computer programs that are designed for a particular purpose or application. For example, accounts programs, games programs, and educational programs are all applications software.

Applied research Is designed to solve practical problems of the modern world, rather than to acquire knowledge for knowledge's sake.

Apportion Is to divide and share out according to a plan.

Apportionment (cost apportionment) Charging a proportion of a cost to a cost centre or cost unit because the cost centres or cost units are not directly incurring those costs although they share in incurring them. A basis of apportionment is always required. For example, local authority business rates for premises are seldom incurred by individual cost centres, therefore floor area is often used as a basis of apportionment to share these costs between appropriate cost centres.

Appraisal definition A method of depreciation that values an asset at the beginning of a financial period and again at the end. Any diminution in value is charged as an expense to the profit and loss account.

Appraisal The assessment of alternative courses of action with a view to establishing which action should be taken. Appraisals may be financial, economic, or technical in emphasis.

Appreciation Is the increase in the value of an asset in excess of its depreciable cost, which is due to economic, and other conditions, as distinguished from increases in value due to improvements or additions made to it.

Apprentice A young employee who signs a contract (an indenture or articles of apprenticeship) agreeing to be trained in a particular skill for a set amount of time by a specific employer. During this time the wages will be relatively low but on completion of the apprenticeship they increase to reflect the increased status of the employee and to recognize the skills acquired.

Appropriate / appropriated / appropriation Is distribution of net income to various accounts and / or the allocation of retained earnings for a designated purpose, e.g. plant expansion.

Appropriation account Is a separate account for which specific dollar amounts are authorized and appropriated.

Appropriation of Retained Earnings Restriction of retained earnings that is recorded by a formal journal entry. The restriction may be made voluntarily by the board of directors to show the earnings are being accumulated for a particular purpose or the restriction may be the result of a covenant in a loan agreement.

Appropriation The allocation of the net profits of an organization in its accounts. For example, in a company appropriations are usually in the form of cash dividends or scrip dividends to shareholders, transfers to reserves, and amounts for taxation. In a partnership appropriations tend to be in the form of salaries, interest on capital, and profit.

Approve To authorize. A manager authorizes a cash payment by signing a voucher providing approval for the disbursement.

Arbitrage Is the movements of funds to take advantage of differences in exchange or interest rates; such movements quickly eliminate any such differences.

Arbitrage pricing theory An explanation of movements in security prices that takes into account more than one variable.

Arbitration The determination of a dispute by an arbitrator or arbitrators rather than by a court of law. Any civil (i.e. noncriminal) matter may be settled in this way; commercial contracts often contain arbitration clauses providing for this to be done in a specified way. If each side appoints its own arbitrator, as is usual, and the arbitrators fail to agree, the arbitrators are often empowered to appoint an umpire, whose decision is final. Arbitration is made binding on the parties by the Arbitration Acts (1950 and 1975). Various industries and chambers of commerce set up tribunals for dealing with disputes in their particular trade or business.

Archive A store for documents and magnetic disks or tapes containing records that are seldom used.

Most computer users maintain an archive holding copies of disks or tapes containing vital information. If the original disk or tape becomes damaged, the archive copy is used to reinstate the information lost from the damaged master disk or tape.

Argument in accounting Usually revolves around the premise that characterizes fair values of assets as being more relevant but less reliable than their historical costs, with fair value being ultimately more informative only if its increased relevance outweighs its reduced reliability.

Arithmetic mean (arithmetic average) An average in which individual numbers or quantities are added together and divided by their total number. For example, the average of 6, 7, and 11 is (6 + 7 + 11)/3 = 8. *Compare* geometric mean; weighted average.

Arm's length transaction Is a transaction that is conducted as though the parties were unrelated, thereby avoiding any semblance of conflict of interest.

Arrears Is an unpaid overdue debt, or the state of being behind in payments, e.g. an account in arrears.

Article of incorporation An official document that details a company's existence.

Articles of association The document that governs the running of a company. It sets out voting rights of shareholders, conduct of shareholders' and directors' meetings, powers of the management, etc. Either the articles are submitted with the memorandum of association when application is made for incorporation or the relevant model articles contained in the Companies Regulations (Tables A to F) are adopted. Table A contains the model articles for companies limited by shares. The articles constitute a contract between the company and its members but this applies only to the rights of shareholders in their capacity as members. Therefore directors or company solicitors (for example) cannot use the articles to enforce their rights. The articles may be altered by a special resolution of the members in a general meeting.

Articles of incorporation Is the primary legal document of a corporation; they serve as a corporation's constitution. The articles are filed with the state government to begin corporate existence. The articles contain basic information on the corporation as required by state law.

Articles of Organization Similar to Articles of Incorporation, but the document filed with the secretary of state or similar authority of a state by the founders of an limited liability company (LLC). It is also known as Articles of Formation.

Articles of partnership Is the contract creating a partnership.

Articulated accounts Accounts prepared under the double-entry bookkeeping system, in which the retained profit figure on the profit and loss account equals the increase in net worth of the business on the balance sheet, subject to any other increases, such as an injection of new capital.

Articulation In business, is the shape or manner in which things come together and a connection is made. In the spoken word, it is expressing in coherent verbal form.

Artificial intelligence The ability of a computer to perform tasks normally associated with human intelligence, such as reasoning and learning from experience. There has been considerable progress in the field recently, particularly in those applications that make use of the computer's calculating power. Chess-playing computers that can beat most human players seem to be intelligent, yet their skill relies only on their ability to calculate better than their human opponents. A more important development, the expert system, makes use of the computer's ability to store, organize, and retrieve large volumes of information. Also called intelligent knowledge-based systems, these store the knowledge and experience of an expert in a particular field. The system can be questioned by a non-expert and will give the answer that the expert would give. These systems are used for a wide range of tasks, such as analysis of company results, review of loan applications, buying stocks and shares, medical diagnosis, identifying poisons, and prospecting for oil.

Artificial person A person whose identity is recognized by the law but who is not an individual. For example, a company is a person in the sense that it can sue and be sued, hold property, etc., in its own name. It is not, however, an individual or real person.

Ascertain An audit procedure to determine or to discover with certainty. For example, to ascertain the date on which an investment was purchased by examining source documents.

ASCII Acronym for American Standard Code for Information Interchange. This is a standard code adopted by many computer manufacturers to simplify the transfer of information between computers. The code represents the numbers, letters, and symbols used in computing by a standard set of numbers. For example, the capital letter A is represented by the number 65, B is represented by the number 66, and so on. Many computers can convert their output to ASCII code, in which form it can be transferred to, and recognized by, other computers.

ASEAN (Association of Southeast Asian Nations) Is a trading block of countries in SE Asia. Originally formed as an anti-communist military alliance, it is now focused on developing a free trade agreement among member nations.

As-is condition Is the transfer of title to a property in an existing condition with no warranties or representations.

Ask price, In the context of the over-the-counter market, the term "ask" refers to the lowest price at which a market maker will sell a specified number of shares of a stock at any given time. The term "bid" refers to the highest price a market maker will pay to purchase the stock. The ask price (also known as the "offer" price) will almost always be higher than the bid price. Market makers make money on the difference between the bid price and the ask price. That difference is called the "spread".

ASOBAT Acronym for A Statement of Basic Accounting Theory, an influential publication by the American Accounting Association. It argued for a user-friendly approach to financial statements and considered the qualitative characteristics of such statements.

Assembler A computer program that takes instructions prepared by the computer user in a kind of shorthand (called assembly language) and converts them into a form that the computer can understand.

Assembly language A type of low-level language used to program computers. Each instruction is a short mnemonic, or 'memory-jogger', that describes one operation to be performed by the machine. For instance, for a particular machine the assembly-language instruction ADD B adds a number to the total already in the computer memory. A special program, called an assembler, is needed to convert the mnemonics into a form, called machine code, that the computer can understand. In practice, most programming is done using high-level languages, such as BASIC or PASCAL, that use abstract constructs, which have no one-for-one correspondence with machine-code instructions. In this case the translation into machine code is done by a program called an interpreter, or a compiler.

Assembly of Financial Statements The providing of various accounting or data-processing services by an accountant, the output of which is in the form of financial statements ostensibly to be used solely for internal management purposes.

Assented stock A security, usually an ordinary share, the owner of which has agreed to the terms of a takeover bid. During the takeover negotiations, different prices may be quoted for assented and non-assented stock.

Assertion Explicit or implicit representations by an entity's management that are embodied in financial statement components and for which the auditor obtains and evaluates evidential matter when forming his or her opinion on the entity's financial statements.

Assertion Management asserts financial statements are correct with regard to existence or occurrence of assets, liabilities or transactions, completeness of information in the financial statements, rights and obligations at a point in time, appropriate valuation or allocation, presentation, and disclosure.

Assess To determine the value, significance, or extent of.

Assessable capital stocks 1. Capital stock of banks, subjecting stockholders to liabilities in excess of the sum originally subscribed 2. Capital stock not fully paid and therefore subject to calls. **asset** In common terms any object, tangible or intangible, that is of value to its possessor. In most cases it either is cash or can be turned into cash; exceptions include prepayments, which may represent payments made for rent, rates, or motor licences, in cases in which the time paid for has not yet expired. Most accounting bodies throughout the world would now define an asset as a source of future economic benefits obtained or controlled as a result of past transactions or events. Tangible assets include land and buildings, plant and machinery, fixtures and fittings, trading stock, investments, debtors, and cash; intangible assets include goodwill, patents, copyrights, and trademarks. See also deferred debit. For capital gains tax purposes, an asset consists of all forms of property, whether situated abroad, including options, debts, incorporeal property, currency, and any form of property either created by the person disposing of it or owned without being acquired. It must, however, consist of some form of property for which a value can be ascertained. Some assets are exempt from capital gains tax.

Assessed Determined. The level of control risk determined by the auditor, based on tests of controls, is the assessed level of control risk.

Assessed value Is the estimated value of property used for tax purposes.

Assessment Is a. proportionate share of a shared expense; or, b. amount of tax or other levied special payment due to a governmental municipality or association.

Asset availability Is the stated condition or availability of an asset for usability. The subject asset is not available if it is already in use, at capacity, undergoing maintenance, broken, etc.

Asset cover A ratio that provides a measure of the solvency of a company; it consists of its net assets divided by its debt. Those companies with high asset cover are considered the more solvent.

Asset deficiency The condition of a company when its liabilities exceed its assets. Although each particular circumstance must be interpreted in its own context, the financial viability of an organization with an asset deficiency must be in question.

Asset earning power Is a common profitability measure used to determine the profitability of a business by taking its total earning before taxes and dividing that by total assets.

Asset Is anything owned by an individual or a business, which has commercial or exchange value. Assets may consist of specific property or claims against others, in contrast to obligations due others.

Asset revaluation reserve Is an accounting concept and represents a reassessment of the value of a capital asset as at a particular date. The reserve is considered a category of the equity of the entity. An asset is originally recorded in the accounts at its cost and depreciated periodically over its estimated useful life as a measure of the amount of the asset's value consumed in that period. In practice, the actual useful life of an asset can be miscalculated or an event can cause a change to the useful life. Consequently, assets occasionally need to be revalued in order to reflect a more close approximation to their "worth" in the accounts. When the asset is revalued, the offsetting entry (in a double entry accounting system) would be either made to the profit or loss accounts or to the equity of the entity.

Asset reversion Is asset recovery by the sponsoring employer through termination of a defined benefit pension fund and/or of assets in excess of amounts required to pay accrued benefits of a pension fund. In the U.S., assets recovered through reversion are subject to corporate income tax and an excise tax.

Asset sale Is the sale of certain named assets of a corporation, partnership or sole proprietorship. Usually the seller retains ownership of the cash and cash equivalents (such as Accounts Receivable) and the liabilities of the entity. The seller then will pay the liabilities with the cash, any down payment and the cash equivalents as they become cash. Assets named are typically trade name, trade fixtures, inventory, leasehold rights, telephone number rights and goodwill. Assets sold can be tangible or intangible.

Asset stripping The acquisition or takeover of a company whose shares are valued below their asset value, and the subsequent sale of the company's most valuable assets. Asset stripping was a practice that occurred primarily in the decade after World War II, during which property values were rising sharply. Having identified a suitable company, an entrepreneur would acquire a controlling interest in it by buying its shares on the stock exchange; after revaluing the properties held, some or all of them could be sold for cash, which would be distributed to shareholders (which now included the entrepreneur). Subsequently, the entrepreneur could either revitalize the management of the company and later sell off the acquired shareholding at a profit or, in some cases, close the business down. Because the asset stripper is totally heedless of the welfare of the other shareholders, the employees, the suppliers, or creditors of the stripped company, the practice is now highly deprecated

Asset turnover ratio Is a general measure of a firm's ability to generate sales in relation to total assets. It should be used only to compare firms within specific industry groups and in conjunction with other operating ratios to determine the effective employment of assets.

Asset valuation An assessment of the value at which the assets of an organization, usually the fixed assets, should be entered into its balance sheet. The valuation may be arrived at in a number of ways; for example, a revaluation of land and buildings would often involve taking professional advice.

Asset value (per share) The total value of the assets of a company less its liabilities, divided by the number of ordinary shares in issue. This represents in theory, although probably not in practice, the amount attributable to each share if the company was wound up. The asset value may not necessarily be the total of the values shown by a company's balance sheet, since it is not the function of balance sheets to value assets. It may, therefore, be necessary to substitute the best estimate that can be made of the market values of the assets (including goodwill) for the values shown in the balance sheet. If there is more than one class of share, it may be necessary to deduct amounts due to shareholders with a priority on winding up before arriving at the amounts attributable to shareholders with a lower priority.

Asset-backed fund A fund in which the money is invested in tangible or corporate assets, such as property or shares, rather than being treated as savings loaned to a bank or other institution. Asset-backed funds can be expected to grow with inflation in a way that bank savings cannot. **asset classification** The classification of assets as required by law on a balance sheet. Assets must be classified as fixed (i.e. held for use on a continuing basis) or current (i.e. not intended for continuing use but held on a short-term basis). Fixed assets are further classified as intangible (e.g. goodwill) or tangible (e.g. land and buildings). Fixed assets must be depreciated (*see* depreciation) over their useful economic life to comply with the Companies Act and Financial Reporting Standard 15. Current assets include stock, debtors, prepayments, cash at bank, and cash in hand. Fixed assets may be shown at historical cost less accumulated depreciation, or under the alternative accounting rules. Current assets must be shown at the lower of historical cost (or current cost under the alternative accounting rules) and net realizable value.

Assets held for sale Are those assets, primarily long-term assets, that an entity wishes to dispose of or liquidate through sale to others.

Assigned value Is a value that serves as an agreed-upon reference for comparison; normally derived from or based upon experimental work of some national or international organization.

Assignment 1. The act of transferring, or a document (a deed of assignment) transferring, property to some other person. Examples of assignment include the transfer of rights under a contract or benefits under a trust to another person. *See also* assignment of lease.

2. The transfer of a bank loan from the lending bank to another bank in order to reduce the credit risk of the lending bank. This practice is contrary to the principles of relationship banking.

Assignment of lease The transfer of a lease by the tenant (assignor) to some other person (assignee). Leases are freely transferable at common law although it is common practice to restrict assignment by conditions (covenants) in the lease. An assignment that takes place in breach of such a covenant is valid but it may entitle the landlord to put an end to the lease and re-enter the premises. An assignment of a legal lease must be by deed. An assignment puts the assignee into the shoes of the assignor, so that there is ‘privity of estate’ between the landlord and the new tenant. This is important with regard to the enforceability of covenants in the lease (*see* covenant). An assignment transfers the assignor’s whole estate to the assignee, unlike a sub-lease (*see* head lease).

Assignment of life policies Transfer of the legal right under a lifeassurance policy to collect the proceeds. Assignment is only valid if the life insurer is advised and agrees; life assurance is the only form of insurance in which the assignee need not possess an insurable interest. In recent years policy auctions have become a popular alternative to surrendering endowment assurances. In these auctions, a policy is sold to the highest bidder and then assigned to him or her by the original policyholder.

Associate In business, is a person brought together with a company or another person into a relationship in any of various intangible ways.

Associated company A company associated with another company that it controls. Associated companies are also defined as companies under the control of the same person or persons.

Associated undertaking An undertaking that is not defined as a subsidiary undertaking but is one in which the group has a participating interest and exercises a significant influence over its operations and financial policies. Accounting for associates is regulated by Financial Reporting Standard 9, Associates and Joint Ventures.

Association for payment clearing services (APACS) An association set up by the UK banks in 1985 to manage payment clearing and overseas money transmission in the UK. The three operating companies under its aegis are: BACS Ltd, which provides an automated service for interbank clearing in the UK; Cheque and Credit Clearing Co. Ltd, which operates a bulk clearing system for interbank cheques and paper credits; and CHAPS, which provides electronic funds transfer. In addition EftPos UK Ltd is a company set up to develop electronic funds transfer at the point of sale. APACS also oversees London Dollar Clearing, the London Currency Settlement Scheme, and the cheque card and eurocheque schemes in the UK.

Association of accounting technicians An association set up in 1980 by the Consultative Committee of Accountancy Bodies (CCAB) to provide a second-tier accounting qualification. This qualification can enable an individual to obtain subsequently a full CCAB qualification.

Association of authorized public accountants (AAPA) An association of qualified accountants who have been authorized by the Board of Trade to carry out audits of companies. Fellows of the Association are designated FAPA and Associates are designated AAPA.

Association of corporate treasurers (ACT) An organization set up to encourage and promote the study and practice of treasury management in companies. A small organization in relation to the professional accounting bodies, it has become influential in the field of corporate treasurership. Fellows of the Association are designated FCT and members as MCT.

Association of futures brokers and dealers A Self Regulating Organization set up under the Finance Act (1986) for brokers and dealers on the London International Financial Futures and Options Exchange. It merged to form the Securities and Futures Authority in 1991.

Assumption Generally, is one or more beliefs or unconfirmed facts that contribute to a conclusion. Specifically, it is the act of taking on the responsibility or assuming the liabilities of another.

Assurance Has been defined by the American Institute of Certified Public Accountants (AICPA) as "Independent Professional Services that improve information quality or its context". Such services are very broad and could include assessments of various industries, e.g., Internet security or quality of health facilities.

Assured The person named in a life-assurance policy to receive the proceeds in the event of maturity or the death of the life assured. As a result of the policy, the person's financial future is 'assured'.

At and from Denoting a marine hull insurance cover that begins when the vessel is in dock before a voyage, continues during the voyage, and ends 24 hours after it has reached its port of destination.

At sight The words used on a bill of exchange to indicate that payment is due on presentation. *Compare* after date; after sight.

At the money Is an option where the strike price is approximately equal to the underlying price.

Ata (Accredited Tax Advisor), in the US, is a national credential conferred by Accreditation Council for Accountancy and Taxation to professionals who handle sophisticated tax planning issues, including ownership of closely held businesses, qualified retirement plans and complicated estates.

ATII *Abbreviation for* Associate of the Chartered Institute of Taxation (formerly Associate of the Taxation Institute Incorporated), a professional qualification achieved by passing the Institute's examination. Most members with the qualification are partners or senior employees of accountancy or solicitors' firms, working mainly in the tax field. Some members work in banks, the Inland Revenue, insurance, industry, or commerce.

Atp (Accredited Tax Preparer), in the US, is a national credential conferred by Accreditation Council for Accountancy and Taxation to professionals who have a thorough knowledge behind the existing tax code and tax preparation of individuals, corporate and partnership tax returns.

ATT *Abbreviation for* Associate of the Association of Tax Technicians, a qualification undertaken by employees working in taxation at a level below that of members of the Chartered Institute of Taxation. The Association was set up in 1989 under the sponsorship of the Institute of Taxation (now the Chartered Institute of Taxation).

Attachment The procedure enabling a creditor, who has obtained judgment in the courts (the judgment creditor), to secure payment of the amount due from the debtor. The judgment creditor obtains a further court order (the garnishee order) to the effect that money or property due from a third party (the garnishee) to the debtor must be frozen and paid instead to the judgment creditor to satisfy the amount due. For instance, a judgment creditor may, through a garnishee order, attach the salary due to the debtor from the debtor's employer (the garnishee).

Attainable standard In standard costing, a cost or income standard set at a level that is attainable by the operators under the conditions applicable during the relevant cost period.

Attest (attestation) report In an attest engagement, a practitioner issues a written conclusion about the reliability of a written assertion that is the responsibility of another party.

Attest function The provision of an audit opinion as to the truth and fairness of the financial statements of an organization.

Attest Is to authenticate, affirm to be true, genuine, or correct, as in an official capacity.

At-the-money option A call or put option in which the exercise price is approximately the same as the current market price of the underlying security.

Attorney's Letter is signed by the client's lawyer and addressed to the auditor. It is the auditor's primary means to corroborate information furnished by management about litigation, claims, and assessments.

Attributable profit The part of the total estimated profit earned on a longterm contract, after allowing for estimated remedial and maintenance costs and any other non-recoverable costs, that fairly reflects the profit attributable to that part of the work completed at a specified accounting date.

Attribute A characteristic that each member of a population either has or does not have. For example, if an auditor is examining the invoices of a company to establish whether each document has been signed and approved, the population will be the invoices, the attribute is the signature.

Attributes sampling An examination of less than 100% of a population to determine the proportion of the population that has a specified attribute. Attributes sampling is mostly used in compliance tests, in which the characteristic being sought is a deviation from required control procedures.

Attrition A reduction in numbers usually as a result of resignation, retirement, or death.

Auction market Is a trading system in which buyers enter competitive bids and sellers enter competitive offers simultaneously. This, as opposed to the over-the-counter market, where trades are negotiated. Examples: the NYSE and the AMEX. It is sometimes called double auction market.

Auction market preferred stock (AMPS) A type of funding instrument issued in the US domestic market. The cost is extremely competitive when economic factors are favourable because the price is determined by auction.

Unfortunately problems arise with regard to price and liquidity when the borrower is in difficulties.

Audit adjustment, whether or not recorded by the entity, is a proposed correction of the financial statements that may not have been detected except through audit procedures.

Audit bureau of circulation (ABC) Is a third-party organization that verifies the circulation of print media through periodic audits.

Audit commission The shortened name of the Audit Commission for Local Authorities in England and Wales, which was established by the Local Government Finance Act (1982). Since the passing of this act and the National Health and Community Care Act (1990), the Audit Commission has been responsible for all local authority and health authority external audit work.

Audit committee, In a larger or more sophisticated corporation, the board may find it useful to appoint an audit committee whose oversight extends not only to external audits, but also to internal audits, internal controls, and external reporting. Ideally, an audit committee is composed of three to five non-management directors and, as needed, outsiders with accounting and financial expertise. In a smaller corporation the audit committee may be a single director with financial expertise and audit experience who takes the lead in exercising the board's audit oversight responsibility.

Audit completion checklist A list of items to be checked by audit staff to ensure that the financial statements being audited give a true and fair view. The list will include all statutory disclosures and accounting standard requirements; for example, 'Have all the accounting policies been disclosed as required by Statement of Standard Accounting Practice 2, Disclosure of Accounting Policies?' The checklist may be used throughout the audit but is more specifically designed to be used as a final check before handing the files to the reporting partner of the audit firm for signature.

Audit Documentation The written record of the basis for the auditor's conclusions that provides the support for the auditor's representations, whether those representations are contained in the auditor's report or otherwise. (May be referred to as work papers or working papers)

Audit evidence Includes written and electronic information (such as checks, records of electronic fund transfers, invoices, contracts, and other information) that permits the auditor to reach conclusions through reasoning.

Audit exemption The exemption from a statutory annual audit performed by a registered auditor that can be claimed by companies with a turnover of not more than £90,000 (and a balance-sheet total of not more than £1.4 million). Companies with a turnover in the range £90,000 to £350,000 (and a balance-sheet total of not more than £1.4 million) may claim exemption from the audit requirement but still need a reporting accountant's report. The report must state that the accounts are, in the opinion of the accountant, in agreement with the accounting records kept by the company and that the accounts have been drawn up in a manner consistent with the provisions of the Companies Act (1985). Also, the accountant must report that, on the basis of the information contained in the accounting records, the company is entitled to the exemption on the basis of size. The audit exemption report was initially known as a compilation report but this term is now obsolete.

Audit expectations gap The gap between the role of an auditor, as perceived by the auditor, and the expectations of the users of financial statements. It may be subdivided into a gap in communications and a gap in performance. The communications gap is caused by public expectations being unreasonable; for example, users of accounts may expect all fraud to have been discovered by a statutory audit, whereas the auditor is only expected to plan the audit to prevent and detect fraud to comply with Statement of Auditing Standard 110, Fraud and Error. The communications gap could be closed by ensuring that the users of accounts understand what an audit is and what its limitations are. The performance gap occurs when public expectations are reasonable but the auditor's performance does not fulfil them, i.e. there is a shortfall in the auditor's performance. This can only be overcome by improving the quality of the auditor's work.

Audit failure Is an Instance where the auditor said that the financial statements were fairly stated when in fact, they were not.

Audit fee (auditors' remuneration) The amount payable to an auditor for an audit; this has to be approved at the annual general meeting of a company. In the financial statements, audit fees must be distinguished from fees payable to the auditor for non-audit work.

Audit Is the inspection of the accounting records and procedures of a business, government unit, or other reporting entity by a trained accountant for the purpose of verifying the accuracy and completeness of the records. It could be conducted by a member of the organization (internal audit) or by an outsider (independent audit). A CPA audit determines the overall validity of financial statements. A tax audit (IRS in the U.S.) determines whether the appropriate tax was paid. An internal audit generally determines whether the company's procedures are followed and whether embezzlement or other illegal activity occurred.

Audit manual A written document that explains the auditing policies and procedures of a firm.

Audit objective In obtaining evidence in support of financial statement assertions, the auditor develops specific audit objectives in light of those assertions. For example, an objective related to the completeness assertion for inventory balances is that inventory quantities include all products, materials, and supplies on hand.

Audit opinion letter Is a signed representation by an auditor as to the reliability and fairness of a set of financial statements. It is usually presented at the beginning of an audit report.

Audit plan/planning Is developing an overall strategy for the expected conduct and scope of the audit. The nature, extent, and timing of planning varies with the size and complexity of the entity, experience with the entity, and knowledge of the entity's business.

Audit programme A document listing the individual audit tests to be performed to achieve an audit strategy. The tests will check that the accounting system operates in the manner recorded. For example, a credit sales transaction will be traced through to payment. Compliance tests will be made to check that the internal control system is working. Substantive tests of details (e.g. account balances and transactions) and an analytical review (an overall analysis of the financial statements) will also be outlined. The audit programme gives guidance to the audit staff involved and provides a record of work done and the conclusions drawn; it therefore provides a basis for effective quality control and meeting audit evidence requirements.

Audit report Is a signed, written document which presents the purpose, scope, and results of the audit. Results of the audit may include findings, conclusions (opinions), and recommendations.

Audit risk Is a combination of the risk that material errors will occur in the accounting process and the risk the errors will not be discovered by audit tests. Audit risk includes uncertainties due to sampling (sampling risk) and to other factors (non-sampling risk).

Audit rotation The practice of appointing an audit firm for a set period, such as five years, after which it must give up the position. The aim is to reduce the effective control of the auditor by directors, who may threaten to remove the auditors if they do not comply with their requirements. However, the practice is generally criticized on the grounds of cost, disruption, and the consequent reduced quality of the audit work.

Audit Sampling Application of an audit procedure to less than 100% of the items within an account balance or class of transactions for the purpose of evaluating some characteristic of the balance or class.

Audit schedules Are the information formats developed by the external auditors to guide the corporation in the preparation of particular information presented in a particular manner that facilitates the audit. These should always be completed by the corporation prior to the start of the audit.

Audit scope Refers to the activities covered by an internal audit. Audit scope includes, where appropriate: audit objectives; nature and extent of auditing procedures performed; Time period audited; and related activities not audited in order to delineate the boundaries of the audit.

Audit software Computer programs used by an auditor to examine an enterprise's computer files. Utility programs may be used, for example, for sorting and printing data files. Package or tailor-made programs may be used to interrogate the computer-based accounting system of a client.

The auditor may also use more sophisticated audit software for compliance tests and substantive tests. Computer-assisted audit techniques (CAATs) include the use of embedded audit facilities, enabling program codes and additional data to be incorporated into the client's computerized accounting system to facilitate a continuous review of the system. There are two main examples of embedded audit facilities: Integrated Test Facilities (ITF), which involve the creation of a fictitious entity to which transactions are posted for checking purposes; and Systems Control and Review Files (SCARF), which collect certain predefined transactions for further examination.

Audit strategy Is a game plan to attack audit issues before they are raised. Reasons and justifications for all positions must be understood and the foundation laid for taking the position.

Audit trail Is a step-by-step record by which financial, business, and quality assurance data can be traced to its source. For example: checking the validity of an accounting entry through the step-by-step record by which accounting data can be traced to their source.

Audit working papers Files built up during an audit that contain detailed evidence and information gathered during the audit. Typical contents include information of continuing importance (e.g. the organizational plan of a company), planning information, assessment of the client's accounting and internal control systems, details of work carried out and by whom financial information and summaries, evidence of work having been appropriately reviewed, and the conclusions reached. These files provide the reporting partner of the audit firm with the evidence necessary to form an opinion; they are also useful for future reference.

Auditing guidelines Documents originally issued by the former Auditing Practices Committee (APC). APC guidelines have been adopted by the Auditing Practices Board (APB), which now has the responsibility for issuing all auditing pronouncements. Guidelines are not prescriptive, but they give guidance as to the methods of applying auditing standards. Auditors could be asked to explain any departures from the guidelines if their failure to follow auditing standards is being investigated. Guidelines are generally grouped into three areas: industry-specific, detailed operational, and reporting guidelines.

Auditing practices board (APB) A body constituted in 1991 to replace the Auditing Practices Committee (APC). Intended to be more independent of the auditing profession than the APC, the APB has half of its members drawn from outside practice, for example from universities and from the legal profession. Its objectives are to guide the development of auditing practice in order to establish the highest standards of auditing. To do this it seeks to meet the developing needs of users of financial information and thus to ensure public confidence in the auditing process. **Auditing practices committee** (**APC**) A committee of the Consultative Committee of Accountancy Bodies set up in 1976 and replaced by the Auditing Practices Board in 1991. During the period 1980 to 1991 it was responsible for issuing two auditing standards:

Auditing Standards Guidelines to which an auditor adheres. Auditing standards encompass the auditor's professional qualities, as well as his or her judgment in performing an audit and in preparing the auditors' report. Audits conducted by independent certified public accountant (CPA) usually in accordance with generally accepted auditing standards (GAAS), which consist of standards approved and adopted by the membership of the american institute of certified public accountants (AICPA).

Auditor Is an accountant usually certified by a national professional association of accountants, if one exists in the corporation's country, or certified by another country's recognized national association of accountants. Corporations will often work with both internal auditors and external auditors.

Auditors' Report Written communication issued by an independent certified public accountant (CPA) describing the character of his or her work and the degree of responsibility taken. An auditors' report includes a statement that the AUDIT was conducted in accordance with generally accepted auditing standards (GAAS), which require that the AUDITOR plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, as well as a statement that the auditor believes the audit provides a reasonable basis for his or her opinion.

Authorization of stock Is the provision in a corporate charter giving permission to issue stock.

Authorization schedule Is the guideline under which the subject activity is controlled and authorized. For example, expenditure spending may be controlled by amounts and the managerial level required authorizing or approving a preset trigger amount. As the amount increases over certain preset levels, higher managerial authority is required for approval.

Authorize (authorization) To give permission for. A manager authorizes a transaction by signing a voucher authorizing the disbursement.

Authorized auditor An individual granted authorization by the Board of Trade or the Secretary of State to be the auditor of a company, under the Companies Act (1967). Authorizations were granted on the basis of the experience of the individual involved; however, the power to grant authorizations ended in April 1978. Under the Companies Act (1989) an authorized auditor is eligible for appointment as an auditor of an unquoted company but is not qualified to be the auditor of any other company. *See also* auditor.

Authorized capital stock Is the maximum number of shares of common stock that can be issued under a company's Articles of Incorporation. Issued shares are normally less than the number of authorized shares.

Authorized share capital (**nominal share capital; nominal capital; registered capital**) The maximum amount of share capital that may be issued by a company, as detailed in the company's memorandum of association. The authorized share capital must be disclosed on the face of the balance sheet or alternatively in the notes to the accounts.

Authorized Shares The maximum number of shares of stock a corporation may issue according to its articles of incorporation. If additional shares are to be issued either to be sold or because of a stock split or dividend, the corporation must file an amendment with the state.

Automated/automatic teller machine (ATM) Is an unattended machine (outside some banks) that dispenses money or allows an individual to conduct unassisted business transactions with the ATM when a personal coded card is used.

Auxiliary journal Is a journal in which accounting information is stored both before and after the transfer to the General Ledger.

Available for sale Is a term that means exactly what is says, i.e. an asset is available for purchase and transfer of ownership upon reaching an agreed upon price.

Available hours 1. The number of hours available to complete a job, task, or process. 2. The number of working hours available during an accounting period expressed as either machine hours, direct labour hours, or production hours.

Aval Is a term meaning inseparable from the financial instrument. This gives a guarantee and is abstracted from the performance of the underlying trade contract: Article 31 of the 1930 Geneva Convention of the Bills Of Exchange states that the aval can be written on the bill itself or on an allonge. US Banks are prohibited from avalizing drafts.

Avalizor Is an institution or person who gives an aval.

Average age of inventory Is calculated by the formula: 365 / inventory turnover.

Average cost method Is using a weighted average cost for items in inventory rather than actual cost for each specific item.

Average costing A method of obtaining unit costs in which the items produced have a high degree of homogeneity. The unit cost is obtained by dividing the total production cost by the number of items produced. *See also* continuous-operation costing; process costing.

Average life A somewhat artificial measure sometimes used to compare bonds of different duration and different repayment schedules. It is calculated as the average of the periods for which funds are available, weighted by the amounts available in each of these periods.

Average settlement period Is For Debtors = Trade Debtors X 365 days / Credit Sale For Creditors = Trade Creditors X 365 days / Credit Purchases.

Avoidable cost Is the amount of expense that would not occur if a particular decision were to be implemented (e.g., if an employee is laid off at a company that is self-insured for unemployment compensation, the avoidable cost is total direct salary less payments for unemployment benefits plus savings in employee benefits).

Axiom, Generally, it is a saying that is widely accepted on its own merits; in logic, it is a proposition that is not susceptible of proof or disproof; its truth is assumed to be self-evident.

B

B/W Is Black & White, Between, or Bundled With.

BAA *Abbreviation for* British Accounting Association.

Back duty An amount of tax that should have been paid in previous years but was not assessed because the taxpayer failed to disclose full income details to the Inland Revenue. A back duty case may arise when a source of income has been omitted totally from a tax return or when the level of business profits has been understated. If an Inspector of Taxes believes that back duty is payable, an enquiry will be instigated. If back duty is found to be payable it is likely that there will be interest and penalties added to the tax charge.

Backcharge Is to charge a person or a firm an amount of money in order to make adjustments for a previous transaction.

Backdate 1. To put an earlier date on a document than that on which it was compiled, in order to make it effective from that earlier date. 2. To agree that salary increases, especially those settled in a pay award, should apply from a specified date in the recent past.

Backdoor listing Is a technique used by a company which failed to get listed on an exchange, whereby the company acquires and merges with a company already listed on that exchange.

Backflush accounting A method of costing a product based on a management philosophy that includes having the minimum levels of stock available; in these circumstances, the valuation of stocks becomes less important, making the complex use of absorption costing techniques unnecessary. Backflush accounting works backwards; after the actual costs have been determined they are allocated between stocks and cost of sales to establish profitability. There is no separate accounting for work in progress.

Backlog depreciation A depreciation charge that occurs when an asset is revalued. The additional depreciation that arises as a consequence of the increase in the value of the asset also increases the accumulated depreciation; this increase is known as backlog depreciation.

Backlog Is value of unfilled orders placed with a manufacturing company. Whether a firm's backlog is rising or falling is a clue to its future sales and earnings.

Back-to-back credit (**countervailing credit**) A method used to conceal the identity of the seller from the buyer in a credit arrangement. When the credit is arranged by a British finance house, the foreign seller provides the relevant documentation. The finance house, acting as an intermediary, issues its own documents to the buyer, omitting the seller's name and so concealing the seller's identity.

Backup A copy of a computer program or file stored separately from the original.

Back-up copy A copy of information held in a computer taken in case the original is lost or destroyed. If the original information is on disk, the backup copy should be on a completely different disk, or tape, and stored in a separate location from the original. Any sensible business will have back-up copies of all information held on its computer. How frequently the copies are made will depend upon how rapidly the information changes, its difficulty of replacement, and its importance.

Backup Withholding Payors of interest, dividends and other reportable payments must withhold income tax equal at a rate equal to the fourth lowest rate applicable to single filers if they fail to supply a federal id # or if they fail to certify that they are not subject to it.

Bad Debt Expense Generally, the cost of uncollectible accounts receivable which occurs when customers to whom a business has extended credit fail to pay. It can also refer to any debt owed you which is uncollectible.

Bad debt Is an open account balance or loan receivable that has proven to be uncollectible and is written off.

Bad debts recovered Debts originally classed as bad debts and written off to the profit and loss account (or to a provision for bad and doubtful debts) but subsequently recovered either in part or in full. Bad debts recovered should be written back to the profit and loss account of the period (or to a provision for bad and doubtful debts).

Bailment A delivery of goods from the bailor (the owner of the goods) to the bailee (the recipient of the goods), on the condition that the goods will ultimately be returned to the bailor. The goods may thus be hired, lent, pledged, or deposited for safe custody. A delivery of this nature is usually also the subject of a contract; for example, a contract with a bank for the deposit of valuables for safekeeping. Nonetheless, in English law a bailment retains its distinguishing characteristic of a business relationship that arises outside the law of contract and is therefore not governed by it.

Balance Is a equality between the totals of the credit and debit sides of an account; or, b. the difference between the totals of the credit and debit sides of an account.

Balance of payments / balance of trade Is the difference between a country's total export dollar value and its total import dollar value, generally or with respect to a particular trading partner. A positive balance means a net inflow of capital, while a negative means capital flows out of the country.

Balance off The practice of totalling the debit and credit sides of an account and inserting a balance to make them equal at the end of a financial accounting period. For example, on the debtors control account amounts owed will be debited, amounts settled will be credited. When balancing off the account the balance inserted will be on the credit side, representing amounts owed that have still not been settled. On the first day of the next accounting period, the balance will be brought forward from the credit side to the debit side, representing the opening amount of debtors.

Balance Sheet Basic financial statement, usually accompanied by appropriate disclosures that describe the basis of accounting used in its preparation and presentation of a specified date the entity's assets, liabilities and the equity of its owners. Also known as a statement of financial condition.

Balance Sum of debit entries minus the sum of credit entries in an account. if positive, the difference is called a debit balance; if negative, a credit balance.

Balanced scorecard (BSC) Is a strategic management system based upon measuring key performance indicators across all aspects and areas of an enterprise: Financial, Customer, Internal Process, and Learning and Growth.

Balance-sheet asset value The book value of an asset as shown on the balance sheet. For tangible fixed assets this is the cost less accumulated depreciation (although freehold land is generally not subject to depreciation). Intangible assets are shown at cost less amortization. Current assets are valued at the lower of cost and net realizable value. Under the alternative accounting rules, the historical cost of certain assets (for example, buildings and stocks) may be replaced by current cost. **Balance-sheet audit** An audit limited to verification of the existence, ownership, valuation, and presentation of the assets and liabilities in a balance sheet. For example, the existence of a building would be satisfied by an inspection, an examination of the deeds would provide evidence of ownership. The valuation of the building could be based on historical cost, in which case the original purchase contract would be examined, alternatively it may have been revalued, in which case the documentation for the revaluation would need to be examined; this may need to be supported by further enquiry. The balance-sheet presentation and disclosures for the building would be checked against the Companies Act and requirements of accounting standards.

Balance-sheet formats Methods of presenting a balance sheet, as contained in the Companies Act. There are two formats: one vertical (format 1) and one horizontal (format 2). Both formats give the same basic disclosures, but format 1 also requires the calculation and disclosure of the net current assets and liabilities. The items are classified under letters, Roman numerals, and Arabic numbers. Items preceded by letters and Roman numerals must be shown on the face of the balance sheet, while those preceded by Arabic numbers may be shown in the notes to the accounts. Unless the directors believe there are valid arguments for a change, a company must adhere to the format it has chosen. Details of any changes and the reasons for making them must be disclosed in the notes to the accounts.

Balance-sheet total The total net worth of an organization as shown at the bottom of the balance sheet, i.e. the fixed assets plus net current assets less long-term liabilities. In the qualification conditions for small company and medium-sized company exemptions, the balance-sheet total is the total of fixed and current assets before deduction of current and long-term liabilities.

Balancing allowance The allowance available on disposal of an asset when the proceeds are less than the written-down value for tax purposes. For example, if the written-down value of an asset is £23,000 and on disposal the proceeds totalled £15,000, there would be a balancing allowance of the difference of £8000. *Compare* balancing charge.

Balancing charge The charge that may be assessable to corporation tax on the disposal of an asset when the proceeds realized on the sale of the asset exceed the written-down value, for tax purposes. The balancing charge amounts to the difference between the proceeds and the written-down value. For example, if the written-down value is £23,000 and the proceeds on disposal were £30,000, there would be a balancing charge of the difference of £7000. The balancing charge is deducted from the other allowances for the period. If the charge exceeds the allowances available, the net amount is added to the profit for the period and assessed to tax.

Balancing figure A figure that is inserted to make one total equal another. *See*balance; balance off.

Balloon 1. A large sum repaid as an irregular instalment of a loan repayment. 2. the final loan repayment, when this amount is significantly more than the prior repayments.

Balloon payment Is a final loan payment that is considerably higher than prior regular payments, in order to pay off the loan.

Bancassurance Is a general term describing the broader financial services activities of banks and building societies, in particular their 'insurance company' activities.

Bank A commercial institution licensed as a taker of deposits. Banks are concerned mainly with making and receiving payments on behalf of their customers, accepting deposits, and making short-term loans to private individuals, companies, and other organizations.

Bank balance Is the amount of money in a bank account on a particular date as recorded by a financial institution on a bank statement.

Bank certificate A certificate, signed by a bank manager, stating the balance held to a company's credit on a specified date. It may be asked for during the course of an audit.

Bank charge The amount charged to a customer by a bank, usually for a specific transaction, such as paying in a sum of money by means of a cheque or withdrawing a sum by means of an automated teller machine. However, modern practice is to provide periods of commission-free banking by waiving most charges on personal current accounts. The commercial banks have largely been forced to take this step as a result of the free banking services offered by building societies. However, business customers invariably pay tariffs in one form or another.

Bank collection Is the collection of a check by the bank on behalf of a depositor.

Bank confirmation A request made by an auditor to a bank to confirm details of an audit client's bank accounts, together with any other assets held by the bank, and any other financial information.

Bank deposit A sum of money placed by a customer with a bank. The deposit may or may not attract interest and may be instantly accessible or accessible at a time agreed by the two parties. Banks may use a percentage of their customers' deposits to lend on to other customers; thus most deposits may only exist on paper in the bank's books. Money on deposit at a bank is usually held in either a deposit account or a current account, although some banks now offer special high-interest accounts.

Bank draft (**banker's cheque; banker's draft**) A cheque drawn by a bank on itself or its agent. A person who owes money to another buys the draft from a bank for cash and hands it to the creditor who need have no fear that it might be dishonoured. A bank draft is used if the creditor is unwilling to accept an ordinary cheque.

Bank float The time spent by a remittance in the banking system, during which the sum of money is available to neither the payer nor the payee.

Bank for international settlements (**BIS**) An international bank originally established in 1930 as a financial institution to coordinate the payment of war reparations between European central banks. It was hoped that the BIS, with headquarters in Basle, would develop into a European central bank but many of its functions were taken over by the International Monetary Fund (IMF) after World War II. Since then the BIS has fulfilled several roles including acting as a trustee and agent for various international groups, such as the OECD, European Monetary Agreement, etc. The frequent meetings of the BIS directors have been a useful means of cooperation between central banks, especially in combating short-term speculative monetary movements. Since 1986 the BIS has acted as a clearing house for interbank transactions in the form of European Currency Units. The BIS also sets capital adequacy ratios for banks in European countries. The original members were France, Belgium, West Germany, Italy, and the UK but now most European central banks are represented as well as the USA, Canada, and Japan. The London agent is the Bank of England, whose governor is a member of the board of directors of the BIS.

Bank guarantee Is an irrevocable commitment by a bank to pay a specified sum of money in the event that the party requesting the guarantee fails to perform the promise or discharge the liability to a third person in case of the requestor's default.

Bank interest The interest charge made by a bank to a person or company, based on the daily cleared overdraft balance or a committed loan. The interest rate will usually be the base rate plus between 1% and 5%.

Bank loan (**bank advance**) A specified sum of money lent by a bank to a customer, usually for a specified time, at a specified rate of interest. In most cases banks require some form of security for loans, especially if the loan is to a commercial enterprise, although if a bank regards a company as a good credit risk, loans may not be secured.

Bank mandate A document given by a customer of a bank to the bank, requesting that the bank should open an account in the customer's name and honour cheques and other orders for payment drawn on the account. The mandate specifies the signatures that the bank should accept for transactions on the account and also contains specimens of the signatures.

Bank reconciliation Is the verification of a bank statement balance and the depositor's checkbook balance.

Bank reconciliation statement A statement that reconciles the bank balance in the books of an organization with the bank statement. Differences may be due to cheques drawn by the organization but not yet presented to the bank, bank charges deducted from the account not yet notified to the organization, and payments made to the bank but not yet recorded by the organization. Bank reconciliations are usually performed weekly or monthly and are a form of internal control check.

Bank report A report made by a bank at the request of an auditor of a business, giving details of the business's dealings with the bank during a specified period.

Bank statement Is a statement reporting all transactions in the accounts held by the account holder.

Bank transfer (bank giro credit) A method of making payments in which the payer may make a payment at any branch of any bank for the account of a payee with an account at any branch of the same or another bank.

Banker's Acceptance A time draft (note) drawn on and accepted by a bank. This instrument is usually used for financing import-export transactions and generally financing international trade. Payment of the note is guaranteed by the bank.

Banker's order An order to a bank by a customer to pay a specified amount at specified times (e.g. monthly or quarterly), until the order is cancelled, from a specific bank account of the customer to another named bank account.

Banker's payment A bank draft drawn in favour of another bank, as settlement of business between the two banks.

Banker's reference (**status enquiry**) A report on the creditworthiness of an individual supplied by a bank to a third party, such as another financial institution or a bank customer. References and status enquiries are often supplied by specialist credit-reference agencies, who keep lists of defaulters, bad payers, and people who have infringed credit agreements. References must be very general and recent legislation has given new rights to the subjects of such reports, which restrict their value even further.

Bankruptcy Is a state of insolvency of an organization or individual, i.e. an inability to pay debts. In the U.S., bankruptcy can take either of three forms:

(A) Chapter 7 is involuntary liquidation forced by creditor(s). Some companies are so far in debt that they can't continue their business operations. They are likely to "liquidate" and are forced to file under Chapter 7. The courts take over and administers through a court appointed trustee. Their assets are sold for cash by a court appointed trustee. Administrative and legal expenses are paid first, and the remainder goes to creditors;

(B) Chapter 11 is voluntary by the debtor. Unless the court rules otherwise, the debtor stays in control of the enterprise. The U.S. Trustee, the bankruptcy arm of the Justice Department, will appoint one or more committees to represent the interests of creditors and stockholders in working with the company to develop a plan of reorganization to get out of debt.; and,

(C) Chapter 13 bankruptcy, a debtor proposes a 3-5 year repayment plan to the creditors offering to pay off all or part of the debts from the debtors' future income. The amount to be repaid is determined by several factors including the debtors' disposable income. To file under this chapter you must have a "regular source of income" and have some disposable income. Like in a Chapter 7, corporations and partnerships may not file under this chapter.

Bankruptcy petition A petition presented by: creditor(s), the Director of Public Prosecutions, a person affected by a voluntary arrangement set up by a debtor, or the debtor, to the court to initiate bankruptcy proceedings against a specified person.

Bar chart (bar diagram) A chart that presents statistical data by means of rectangles (i.e. bars) of differing heights. For example, the sales figures for a range of products for an accounting period may be presented in this way, the different sizes of the bars enabling the users to see at a glance how each product has performed during the period.

Bargain purchase The purchase of assets or other goods for substantially less than the fair market value. A bargain purchase can be made when the vendor is in liquidation or is otherwise financially distressed.

Barometer stock A security whose financial performance and price is regarded as an indication of the overall financial health of a stock market.

Barriers to entry Are obstacles to the entry of new firms into a market. Barriers to entry may take various forms. They may be technical barriers, legal barriers or barriers that arise from strong branding of the product.

Bars Is an acronym for Base Accounts Receivable System.

Barter A method of trading in which goods or services are exchanged without the use of money. It is a cumbersome system, which severely limits the scope for trade. Means of exchange, such as money, enable individuals to trade with each other at much greater distance and through whole chains of intermediaries, which are inconceivable in a barter system.

Base Also known as a Stop. In real estate leases tenants are often responsible for operating expenses of the building over a certain dollar amount, the base or stop. The base may be expressed in dollars per square foot, total dollars, or as a base year (in which case the base is the expense in the base year). ***Example*—**Expenses for a building are $9 per square foot in 1997. Madison Inc. has a base of $6. For 1997 Madison must pay $3 per square foot in **Escalation**. (Note, the computations can be much more involved.) For a net lease the base is zero.

Base amount Is the fundamental numerical assumption from which something is begun or developed or calculated or explained, e.g. base pay.

Base capital Includes

(1) shares that

(a) are non-cumulative, non-retractable, non-redeemable and, if convertible, are only convertible into common shares, and

(b) have been issued and paid for; base capital also includes

(2) contributed surplus, and

(3) retained earnings.

Base currency The currency used as the basis for an exchange rate, i.e. a foreign currency rate of exchange is quoted per single unit of the base currency, usually sterling or US dollars. **base metals** The metals copper, lead, zinc, and tin.

Base rate 1. The rate of interest used as a basis by banks for the rates they charge their customers. In practice most customers will pay a premium over base rate to take account of the bank's risk involved in lending, competitive market pressures, and to regulate the supply of credit. 2. An informal name for the rate at which the Bank of England lends to the discount houses, which effectively controls the lending rate throughout the banking system. The abolition of the minimum lending rate in 1981 heralded a loosening of government control over the banking system, but the need to increase interest rates in the late 1980s (to control inflation and the balance of payments deficit) led to the use of this term in this sense.

Base stock A certain volume of stock, assumed to be constant in that stock levels are not allowed to fall below this level. When the stock is valued, this proportion of the stock is valued at its original cost. This method is not normally acceptable under Statement of Standard Accounting Practice 9 for financial accounting purposes.

Base tax year Is the tax year prior to the subject tax year.

Basic costing method The major costing method adopted by an organization. The basic costing method may be absorption costing, marginal costing, process costing, or average costing.

Basic defense interval (BDI) Is a measure that if for some reason all of your revenues were to suddenly cease, the Basic Defense Interval (BDI) helps determine the number of days your company can cover its cash expenses without the aid of additional financing. The BDI is calculated: (Cash + Receivables + Marketable Securities) / ((Operating Expenses + Interest + Income Taxes) / 365) = Basic Defense Interval.

Basic earnings per share The earnings per share calculated by dividing the earnings for a financial period by the number of shares in issue without taking into account any obligations that the company has outstanding that would lead to dilution.

BASIC EARNINGS POWER (BEP) is useful for comparing firms in different tax situations and with different degrees of financial leverage. This ratio is often used as a measure of the effectiveness of operations. Basic Earning Power measures the basic profitability of Assets because it excludes consideration of interest and tax. This ratio should be examined in conjunction with turnover ratios to help pinpoint potential problems regarding asset management.

Basic net income per share Is always reported as net income per share on an undiluted basis. The calculation of diluted net income per share includes the effect of common stock equivalents such as outstanding stock options, while the calculation of basic net income per share does not.

Basic rate of income tax A rate of income tax between the starting rate and the higher rate.

Basic standard A cost or income standard set in standard costing to form the basis upon which other standards are set. For example, the number of labour minutes allowed per unit of product produced would be a basic standard to which the current wage rates can be applied in order to produce a current standard.

Basic tenets of accounting Are four in number: 1. Assets = Liabilities + Owner's Equity, 2. Debits = Credits, 3. Assets are on the left (debit side), and, 4. Liabilities and Equity are on the right (credit side).

Basic wage rate The wage rate paid to an operator for a specified time period worked; it excludes any payments for incentive bonus, shift premium, overtime, working conditions, and other premium payments that, when added to the basic wage rate, make up the final gross pay.

Basis of apportionment The basis used for the apportionment of costs between a number of cost centres when the costs are to be shared between them equitably. This occurs when the allocation of an overhead cannot be directly attributed to one particular cost centre. For example, rent and business rates are seldom incurred by individual cost centres, therefore floor area is often used as a basis of apportionment to share the costs between appropriate cost centres.

Basis of assessment The schedules under which personal income or business profits are assessed for each tax year. The individual rules for each schedule identify the profits or income to be assessed in that year. The basis of assessment does not necessarily equate to the actual tax year. In the case of a partnership that has been trading for many years, the profits for the year to 30 April 2000, i.e. those arising during the period 1 May 1999 to 30 April 2000, will form the basis of the assessment for the tax year 2000-2001. This is known as the current year basis of assessment. Other income received during the year, e.g. building society interest received, is assessed on an actual basis and so for 2000-2001 the basis of assessment will be the tax year, i.e. the interest received during the year 6 April 2000 to 5 April 2001.

Basis period The period, usually a year, during which profits earned or income generated form the basis of assessment for the tax year. Profits of an ongoing partnership for the year to 30 April 2000 are used as the basis for assessment of tax, under the current-year basis of assessment, in the tax year 2000-2001.

Basis points Is 0.01% in yield. For example, in increasing from 5.00% to 5.05%, the yield increases by five basis points.

Basis, Generally, is that figure or value that is the starting point in computing gain or loss, depreciation, depletion, and amortization of a company. Specifically, it is the financial interest that the Internal Revenue Service attributes to an owner of an investment property for the purpose of determining annual depreciation and gain or loss on the sale of the asset. If a property was acquired by purchase, the owner's basis is the cost of the property plus the value of any capital expenditures for improvements to the property, minus any depreciation allowable or actually taken. This new basis is called the ADJUSTED BASIS.

Batch costing Is the identification and assignment of those costs incurred in completing the manufacture of a specified batch of components. Having arrived at the batch cost, the unit cost is simply derived by dividing it by the number of components in the batch.

Batch Is a collection of things or persons to be handled or processed together.

Batch Processing Entering transactions in a group rather than as they occur.

Batching, In accounting, is the gathering and organizing of incoming invoices prior to processing.

Bay, In business / accounting, means Buy Another Yearly.

Bba Can mean: Bachelor of Business Administration, Balanced Budget Act of 1997, Budget Activity Account, Budget By Account, British Bankers Association, Black Business Association, etc.

Bcf Is an acronym for Broadcast Cash Flow.

Bcl Is an acronym for, among others, Bank Comfort Letter or Bachelor of Canon/Civil Law.

Bear A dealer on a stock exchange, currency market, or commodity market who expects prices to fall. A bear market is one in which a dealer is more likely to sell securities, currency, or goods than to buy them. A bear may even sell securities, currency, or goods without having them. This is known as selling short or establishing a *bear position*. The bear hopes to close (or cover) a short position by buying in at a lower price the securities, currency, or goods previously sold. The difference between the purchase price and the original sale price represents the successful bear's profit. A concerted attempt to force prices down by one or more bears by sustained selling is called a bear raid. In a bear squeeze, sellers force prices up against someone known to have a bear position to cover. *Compare* bull.

Bearer A person who presents for payment a cheque or bill of exchange marked 'pay bearer'. As a bearer cheque or bill does not require endorsement it is considered a high-risk form of transfer.

Bearer Bond While new issues are rare because of a change in the tax law, the principal and interest on the bond is payable to whoever has possession. On the other hand, the ownership of a bond in *registered* form is recorded with a bank, the issuer, etc.

Bearer Instrument A note, instrument, or draft, payable to someone other than a designated payee, i.e., the bearer or to cash. Beneficiary. A person entitled to the benefits of a trust, will, insurance policy, pension plan, etc. For example, if you name your daughter as the sole beneficiary of a life insurance policy, only she is entitle to the proceeds.

Bearer security (bearer bond) A security for which proof of ownership is possession of the security certificate; this enables such bonds to be transferred from one person to another without registration. No register of ownership is kept by the company in whose name it is issued. This is unusual as most securities are registered, so that proof of ownership is the presence of the owner's name on the security register. Eurobonds are bearer securities, enabling their owners to preserve their anonymity, which can have taxation advantages. Bearer bonds are usually kept under lock and key, often deposited in a bank. Dividends are usually claimed by submitting coupons attached to the certificate.

Bed and breakfast An operation on the London Stock Exchange in which a shareholder sells a holding one evening and makes an agreement with the broker to buy the same holding back again when the market opens the next morning. The object is to establish a loss, which can be set against other profits for calculating capital gains tax. In the event of an unexpected change in the market, the deal is scrapped.

Bed and PEP A similar operation to bed and breakfast, except that in this case a shareholding is sold one evening and repurchased at the beginning of the next day's trading for the shareholder's own personal equity plan (PEP), in order to comply with the regulations for self-select PEPs.

Behavioural accounting Is the explanation and prediction of human behavior in all possible accounting contexts, e.g., adequacy of disclosure, usefulness of financial statement data, attitudes about corporate reporting practices, materiality judgements, and decision effects of alternative accounting procedures.

Below the line, In accounting, denotes credits or debits affecting balance sheet accounts rather than the income statement. Extraordinary items may also appear below the net profit line in the income statement, but accounting standards-setters have increasingly favored reflecting most such items in periodic net income.

Benchmark Is a study to compare actual performance to a standard of typical competence; or, a standard for the basis of comparison as being above, below or comparable to.

Beneficial owner Is the person who enjoys the benefits of ownership even though title is in another name (often used in risk arbitrage).

Beneficiary Is a person who benefits from the terms of a trust, pension or provident fund, or other deferred income plan, or an insurance policy. In banking, it is the person in whose favor a letter of credit is issued or a draft is drawn.

Benefit-cost ratio The evaluation of a proposed activity by determining the value of the anticipated benefits likely to accrue compared to the costs that will be incurred. If the benefits exceed the costs the activity is financially attractive, although there may be many non-financial factors to take into account before making a final decision. The benefits, some of which may be of a qualitative nature, may be enjoyed by some groups and the costs borne by others, which may make the analysis more complex.

Benefits in kind Benefits other than cash arising from employment. The tax legislation seeks to assess all earnings to tax, whether they be in the form of cash or in kind. The treatment of benefits depends on the level of total earnings, including the value of any benefits, and whether the employee is a director of a company. For employees earning less than £8500, the benefits are only assessable if they are capable of being turned into cash, such as credit tokens or vouchers, living accommodation, and payment by the employer of an employee's personal liability. For all directors and higherpaid employees, with total earnings (including benefits) in excess of £8500, the benefits must be reported on form P11D by the employer at the end of the fiscal year. This form will include details of company cars and associated fuel provided by the employer, beneficial loans, mobile telephones, medical insurance provided by the employer, subscriptions paid, and any costs paid on the employee's behalf. These benefits will be assessed to tax. This often takes the form of a restriction to the income tax code.

Benford's Law is a mathematical law that applies to any population of numbers derived from other numbers (such as the dollar amount of a sale, found by multiplying the quantity sold times the unit price). It holds that 30% of the time the first non-zero digit of this derived number will be one, and it will be a nine only 4.6% of the time. Benford's law is used by auditors to identify fictitious populations of numbers.

Bequest A gift by will of personal property. If the bequest is money to the extent it is paid out of income from property it is taxable to the recipient. Generally bequest value is fair market at the date of the decedent's death.

Best practices Are the generally understood operational characteristics of corporations which have been successful in terms of high repayment rates, significant outreach, and progress towards surplus generation.

Beta coefficient A measure of the volatility of a share. A share with a high beta coefficient is likely to respond to stock market movements by rising or falling in value by more than the market average.

Beta, In securitites, is a statistical measurement correlating a stock's price change with the movement of the stock market. The beta is an indicator or statistical measure of the relative volatility of a stock, fund, or other security in comparison with the market as a whole. The beta for the market is 1.00. Stocks with betas above 1.0 are more responsive to the market, but are also more risky investments. Stocks with a beta below 1.0 tend to move in the opposite direction of the market. For example, if the market moves 10%, a stock with a beta of 3.00 will move 30%; a stock with a beta of .5 will move 5%.

Betterment The replacement of a major item of plant or machinery by one that will provide better performance; betterment thus involves capital expenditure.

Bid 1. The price (often called the bid price) at which a market maker will buy shares: the lower of the two figures quoted on the TOPIC screens of the SEAQ system, the higher being the offer price; the difference between the two prices is known as the bid-offer spread. Some dealers prefer to rely on the figure quoted, others prefer to haggle over the price. *Compare* offer price.

2. An approach by one company to buy the share capital of another; an attempted takeover.

3. The price at which a buyer is willing to close a deal. If the seller has made an offer that the buyer considers too high, the buyer may make a bid at a lower price (or on more advantageous terms). Having received a bid, the seller may accept it, withdraw, or make a counteroffer. Once the buyer has made a bid the original offer no longer stands.

Bid Bond An agreement in which a third party agrees to be liable in the event the bidder fails to sign the contract as bid (if his bid is accepted). A bid deposit is similar, but the bidder must deposit cash or a certified check.

Bifurcated Generally means to be divided into or made up of two parts. In accounting an example would be: to split the cash account in the accounting records into two accounts, cash – principal and cash – income.

Big 4 Usually refers to the largest accounting firms: Deloitte & Touche, Ernst and Young, KPMG, and PricewaterhouseCoopers.

Big bang The upheaval on the London Stock Exchange (LSE) when major changes in operation were introduced on 27 October 1986. The major changes enacted on that date were: (a) the abolition of LSE rules enforcing a single-capacity system; (b) the abolition of fixed commission rates charged by • stockbrokers to their clients. The measures were introduced by the LSE in return for an undertaking by the government (given in 1983) that they would not prosecute the LSE under the Restrictive Practices Act. Since 1986 the Big Bang has also been associated with the globalization and modernization of the London securities market.

Big bath Is a business strategy in which a company manipulates its income statement to make poor results look even worse. Strategy being that the following year will show significant improvement. Big bath is sometimes employed by new CEOs to make their first years results more impressive by employing big bath accounting to prior year results.

Bilateral bank facility A facility provided by a bank to a corporate customer. The agreement is restricted to the two parties, which enables a relationship to develop between the bank and the customer (*see*relationship banking). *Compare* syndicated bank facility.

Bilateral netting A method of reducing bank charges in which two related companies offset their receipts and payments with each other, usually monthly. In this way a single payment and receipt is made for the period instead of a number, which saves on both transaction costs and paperwork.

Bill broker (discount broker) A broker who buys bills of exchange from traders and sells them to banks and discount houses or holds them to maturity. Many now deal exclusively in Treasury bills.

Bill Is a : to enter in an accounting system : prepare a bill of (charges) b : to submit a bill of charges to c : to enter (as freight) in a waybill d : to issue a bill of lading to or for; e.g., “billable expenses” are those expenses for which reimbursement invoices are issued.

Bill of entry A detailed statement of the nature and value of a consignment of goods prepared by the shipper of the consignment for customs entry.

Bill of exchange An unconditional order in writing, addressed by one person (the drawer) to another (the drawee) and signed by the person giving it, requiring the drawee to pay on demand or at a fixed or determinable future time a specified sum of money to or to the order of a specified person (the payee) or to the bearer. If the bill is payable at a future time the drawee signifies acceptance, which makes the drawee the party primarily liable upon the bill; the drawer and endorsers may also be liable upon a bill. The use of bills of exchange enables one person to transfer to another an enforceable right to a sum of money. A bill of exchange is not only transferable but also negotiable, since if a person without an enforceable right to the money transfers a bill to a holder in due course, the latter obtains a good title to it. Much of the law on bills of exchange is codified by the Bills of Exchange Act (1882).

Bill of lading Is the contract between the owner of the goods and the cargo carrier to move the goods to a specified destination. A clean bill of lading is issued by the carrier verifying receipt of the merchandise in apparent good condition (without visually apparent damage or defect). Bills of lading can sometimes be made to cover the whole trip, or separate bills of lading can be prepared for each carrier. Ocean shipments generally require two, an Inland Bill of Lading covering land transportation to the port and an Ocean Bill of Lading covering the ship portion. Bills of lading are negotiable while cargo is in transit.

Bill of materials (BOM) Is a listing of all the assemblies, sub-assemblies, parts, and raw materials that are needed to produce one unit of a finished product. Each finished product has its own bill of materials.

Bill of quantities (bill of materials) A document drawn up by a quantity surveyor showing in detail the materials and parts required to build a structure (e.g. factory, house, office block), together with the price of each component and the labour costs. The bill of quantities is one of the tender documents that goes out to contractors who wish to quote for carrying out the work.

Bill of sale 1. A document by which a person transfers the ownership of goods to another. Commonly the goods are transferred conditionally, as

Security for a debt, and a conditional bill of sale is thus a mortgage of goods. The mortgagor has a right to redeem the goods on repayment of the debt and usually remains in possession of them; the mortgagor may thus obtain false credit by appearing to own them. An absolute bill of sale transfers ownership of the goods absolutely. The Bills of Sale Acts (1878 and 1882) regulate the registration and form of bills of sale. 2. A document recording the change of ownership when a ship is sold; it is regarded internationally as legal proof of ownership.

Bill rate (discount rate) The rate on the discount market at which bills of exchange are discounted (i.e. purchased for less than they are worth when they mature). The rate will depend on the quality of the bill and the risk the purchaser takes. First-class bills, i.e. those backed by banks or well-respected finance houses, will be discounted at a lower rate than bills involving greater risk.

Billable Are those costs and/or expenses that are covered under a contractual agreement between two entities that may be billed to the receiving entity.

Billable hours Is professional hours worked and billed to clients.

Billback, In e-commerce and credit card transactions, is a means of recovering or reducing interchange fees for transactions clearing differently than planned. The processing company (FDC) passes through the charges to the merchant.

Billings, Generally, is the request for payment of a debt. In accounting, it is sales for which invoicing has been issued.

Billion Formerly, one thousand million (109) in the USA and one million million (1012) in the UK; now it is almost universally taken to be one thousand million.

Bills payable, In merchant accounts, are all bills which have been accepted, and promissory notes which have been made, are called "bills payable," and are entered in a ledger account under that name, and recorded in a book bearing the same title.

Bills purchased, In trade finance, allows a seller to obtain financing and receive immediate funds in exchange for a sales document not drawn under a letter of credit. The bank will send the sales documents to the buyer's bank on behalf of the seller.

Bills receivable, In merchant accounts, are all promissory notes, bills of exchange, bonds, and other evidences or securities which a merchant or trader holds, and which are payable to him.

BIMBO *Abbreviation for* buy-in management buyout: a form of management buyout in which management invests in the venture together with outsider venture capitalists, who have more managerial control than is usual with a management buyout.

Bin card (store card) A card attached to each site or bin in which individual items of stock are stored to record the receipts, issues, and balances of each item of stock in units. The bin card balance should indicate the physical stock available at any time; regular reconciliations with the physical quantities should be made to ensure accuracy.

Black hole expenditure Is a capital R&D expenditure that does not give rise to a depreciable asset and is not otherwise deductible.

Black knight A person or firm that makes an unwelcome takeover bid for a company. *Compare* grey knight; white knight.

Black markets Are created when buyers and sellers meet to negotiate the exchange of a prohibited or illegal good. More generally, it is any unofficial market in which prices are inordinately high.

Black wednesday Wednesday, 16 September 1992, when sterling left the Exchange Rate Mechanism, which led to a 15% fall in its value against the Deutschmark (*see*European Monetary System). Because of the improved economic performance of the UK following the event, it is also known as White Wednesday.

Blackleg 1. An employee who refuses to join a trade union.

2. An employee who refuses to stop work when the rest of his co-unionists have declared a strike.

Blank bill A bill of exchange in which the name of the payee is left blank.

Blank cheque A cheque in which the amount payable is not stated. The person writing the cheque (the drawer) may impose a maximum amount to be drawn by the cheque by writing on it, for example, 'Not more than £100'.

Blanket authorization Is direct authority to act without having to gain approval for each action. For example: "Blanket authorization was given to him for all his business travel".

Blanket Mortgage A single mortgage that covers more than one property.

Blanket Order A purchasing arrangement where the purchaser contracts with a vendor to provide his requirements for an item or service on an as-required basis.

Blanket Position Bond A fidelity bond where each employee is covered up to the bond penalty. The maximum liability is equal to the bond penalty times the number of employees.

Blind Pool A partnership or syndication where the investments to be purchased are not specified at the time the investments are sold.

Blind receiving Is a method to ensure more accurate warehouse receipt counts, i.e., PO quantities or items are not displayed on receiving tickets.

Blind trust Is a trust where assets are not disclosed to their owner.

Blue Sky Laws State laws that regulate the issuance of securities. These laws are coordinated with federal acts.

BMR, among others, is Base Mortgage Rate.

Board of Directors Individuals responsible for overseeing the affairs of an entity, including the election of its officers. The board of a corporation that issues stock is elected by stockholders.

Body corporate A corporation consisting of a body of persons legally authorized to act as one person, while being distinct from that person. For example, the shareholders of a company are separate from the company. References to a body corporate in the Companies Act (1985) do not include a corporation sole, in which only one individual forms the corporation, for example a bishop or the sovereign.

Boilerplate A copy intended for use in making other copies. It is sometimes used to describe a group of instructions that is incorporated in different places in a computer program or the detailed standard form of words used in a contract, guarantee, etc.

Bona fide guaranty Covers a specific element of a secured transaction, for example, the integrity of receivables or the accuracy of inventory count.

Bona fide In good faith, honestly, without collusion or fraud. A bona fide purchaser for value without notice is a person who has bought property in good faith, without being aware of prior claims to it (for example, that it is subject to a trust). The purchaser will not be bound by those claims, unless (if the property is land) they were registered.

Bona vacantia Goods without an apparent owner. An example could be the possessions of a person with no living relatives who has died intestate. The Crown is entitled to any personal property without an apparent owner. The prerogative may also be extended to real estate by the doctrine of **escheat,** the return of ownerless land to the superior landowner.

Bond covenant Are agreements within a bond that can either be negative or positive in the view of the bondholder, e.g., a negative bond covenant is a bond covenant that prevents certain activities unless agreed to by the bondholders.

Bond discount Is the excess of a bond face value over issued price.

Bond indenture Is the title specifying all the obligations of the issuing company to the bondholder.

Bond Is a commonly used form of long term debt.

Bond One type of long-term promissory note, frequently issued to the public as a security regulated under federal securities laws or state blue sky laws. Bonds can either be registered in the owner's name or are issued as bearer instruments.

Bond premium Is the excess of the issue price over the face value of the bond.

Bond Premium The excess of the bond's price over the maturity (par) value. For example, you purchase a bond for $1050; the maturity value is $1,000. The bond has a premium of $50.

Bond sinking fund Is a provision to repay a bond.

Bonded Is to: a. secure payment of duties and taxes on (goods) by giving a bond; or, b. convert into a debt secured by bonds; or, c. provide a bond for or cause to provide such a bond (e.g., to bond an employee) that guarantees any monetary loss caused by intentional acts by the bonded employee.

Bonded warehouse Is a warehouse authorized by customs officials for the storage of goods on which payment of duty is deferred until the goods are removed.

Bonds with warrants Fixed-rate bonds with warrants attached giving long-term options linked usually to ordinary shares. They differ from convertibles in that the fixed-rate bonds and the warrants are frequently separated and marketed to separate groups of investors.

Bonus dividend A dividend issued to a shareholder in addition to those expected. Typically, two dividends are issued each year. If an additional dividend is paid to shareholders, perhaps because of a takeover, this is known as a bonus dividend.

Bonus Is remuneration over and above regular salary.

Bonus shares Shares issued to the existing shareholders of a company following a scrip issue. The number of shares received depends on the level of the shareholding prior to the bonus issue. The number of bonus shares is usually one share for a specified number of shares held before the issue. For example, if the specified number is four this would be denoted as a 1:4 bonus issue. It is also possible to have a 2:1 bonus, when two shares are issued for every one held.

Book cost, Normally, is the cost at the time an asset is purchased or realized, i.e. the total amount paid to acquire an asset.

Book income Is the income reported within the financial statements of the taxable entity, i.e., taxable income normally is not aligned with the financial income (book income) reported within financial statements

Book inventory Is the acquistion cost of all inventory less liabilities associated wth the inventory.

Book of prime entry A book or record in which certain types of transaction are recorded before becoming part of the double-entry bookkeeping system. The most common books of prime entry are the day book, the cash book, and the journal.

Book value Is an accounting term which usually refers to a business' historical cost of assets less liabilities. The book value of a stock is determined from a company's records by adding all assets (generally excluding such intangibles as goodwill), then deducting all debts and other liabilities, plus the liquidation price of any preferred stock issued. The sum arrived at is divided by the number of common shares outstanding and the result is the book value per common share. Book value of the assets of a company may have little or no significant relationship to market value.

Tangible Book Value is different than Book Value in that it deducts from asset value intangible assets, which are assets that are not hard (e.g., goodwill, patents, capitalized start-up expenses and deferred financing costs).

Economic Book Value allows for a Book Value analysis that adjusts the assets to their market value. This valuation allows valuation of goodwill, real estate, inventories and other assets at their market value.

Book Value of Stock The book value of the assets of a company less the liabilities. Can be translated into book value per share by dividing by the number of shares outstanding.

Book(S) When used as a noun refers to journals or ledgers (for example: cash book). When used a verb it refers to the recording of an entry (for example: to book the sale).

Bookbuild Is a particular way of conducting a float where the price at which shares are sold is not fixed, but rather is determined following a process in which interested investors bid for shares. This is quite a common way of determining the price paid for shares by institutional investors (Funds Managers).

Booking, In import / export, is an arrangement with a shipping company to load and carry a shipment.

Bookkeeping Is the art, practice, or labor involved in the systematic recording of the transactions affecting a business.

Books of account Are the financial records of a business. Usually refers to the lowest level of recorded data, before summaries are made.

Books of account The books in which a business records its transactions using ledgers, journals, and other accounting records. If the business is a limited company the accounting records must show in sufficient detail the position of the company at any time.

Books of record Are all mandatory entries into those documents that track the activity, events, or decisions pertaining to the subject for which the records are maintained, e.g., board of director minutes, births or deaths, and marriage licenses.

Book-to-market Is the ratio of the firm's book equity to market equity.

Boot The no technical term used by some to describe any cash or other property that is received in exchange of property that would be otherwise nontaxable.

Bootstrap 1. A cash offer for a controlling interest in a company. This is followed by an offer to acquire the rest of the company's shares at a lower price. The purpose is twofold: to establish control of the company and to reduce the cost of the purchase.

2. A technique enabling a computer to load a program of instructions. Before computer hardware can function, a program must be loaded into it. However, as a program is needed in the computer to enable it to load a program, preliminary instructions are stored permanently in the computer making it possible for longer programs to be accepted.

Bottom line, In accounting/finance, is specifically net income after taxes. In general, it is an expression as to the end results of something, e.g. the net worth of a corporation on a balance sheet, sales generated from a marketing campaign, or final decision on most any subject (Often said: "give me the bottom line").

Bottom up Is a concept of analyzing a subject, such as costs or revenue, starting from the lowest level working towards the top.

Bought day book The purchases journal that gives details of all the items a business has bought. The totals from the bought day book are regularly transferred to the nominal ledger account.

Bought deal A method of raising capital for a new issue of bonds.

Acquisitions, etc., as an alternative to a rights issue or placing. The borrower invites banks or groups of banks to bid for new issues of bonds or shares, selling them to the highest bidder, who then sells them to the rest of the market in the expectation of making a profit. The borrower is guaranteed that the new issue is successful.

Bounced check Is a check written for an amount exceeding the checking account balance that is subsequently rejected for payment due to insufficient funds.

Boy Is Beginning Of Year.

Br Could be Backward Reporting or Bad Register.

Branch accounting An accounting system in which each department or branch of a business is established as a separate cost centre or accounting centre. The net profit per branch may be added together to arrive at the profit for the whole business.

Branch accounts May be prepared to show the performance of both a main trading centre (i.e. the head office) and subsidiary trading centres (i.e. branches) but with all the accounting records being maintained by head office. Alternatively, separate entity branch accounts are prepared in which branches maintain their own records, which are later combined with head-office records to prepare accounts for the whole business.

Brand image Is the view held by consumers about a particular brand of good or service. The stronger the brand image the more inelastic the demand for the product is likely to be.

Brand loyalty Is a situation when a consumer is reluctant to switch from consumption of a favored good. The consumer is "loyal" to the brand.

Brand name Is a name given to a product or service.

Brands Intangible assets, such as a product or company name, sign, symbol, design, or reputation, which if operated in combination will lead to greater benefits from the sales or service through brand differentiation. The accounting treatment for brands is closely linked to the controversy surrounding accounting for goodwill. Some companies, neither wishing to write off an amount representing goodwill immediately to their reserves nor to amortize it, have shown an amount for brands on their balance sheets. These amounts may remain on the balance sheet without amortization. Some companies have also chosen to place on their balance sheets internally created brands, as well as those acquired. Although there is general agreement that the existence of brands can have a beneficial impact on the earnings of a company, there is less agreement on the reliability for valuing brands in the balance sheet. It is standard practice to capitalize and amortize goodwill and all intangibles are treated in the same fashion; thus brands are not an important accounting issue.

breach of contract A failure by a party to a contract to perform obligations under that contract or an indication of an intention not to do so. An indication that a contract will be breached in the future is called repudiation or an anticipatory breach ; it may be either expressed in words or implied from conduct. Such an implication arises when the only reasonable inference from a person's acts is an intention not to fulfil his or her part of the bargain. For example, an anticipatory breach occurs if a person contracts to sell a car to A but sells and delivers it to B before the delivery date agreed with A. The repudiation of a contract entitles the injured party to treat the contract as discharged and to sue immediately for damages for the loss sustained. The same procedure only applies to an actual breach if it constitutes a fundamental breach, i.e. a breach of a major term of the contract. In either an anticipatory or an actual breach, the injured party may, however, decide to affirm the contract instead. When an actual breach relates only to a minor term of the contract (a warranty) the injured party may sue for damages but has no right to treat the contract as discharged. The process of treating a contract as discharged by reason of repudiation or actual breach is sometimes referred to as rescission. Other remedies available under certain circumstances for breach of contract are an injunction and specific performance.

Breach of trust The contravention by a trustee of the duties imposed by a trust. If one of several trustees agrees to a breach of trust by a co-trustee, this also constitutes a breach of trust.

Breach of contract Is the failure to perform provisions of a contract.

Break-even analysis Is an analysis method used to determine the number of jobs or products that need to be sold to reach a break-even point in a business.

Breakeven chart (**breakeven graph**) A graph on which an organization's total costs, analysed into fixed costs and variable costs, are drawn over a given range of activity, together with the sales revenue for the same range of activity. The point at which the sales-revenue curve crosses the total-cost curve is known as the breakeven point (expressed either as sales revenue or production/ sales volume). The breakeven chart, like breakeven analysis, may also be used to determine the profit or loss likely to arise from any given level of production or sales, the impact on profitability of changes in the fixed or variable costs, and the levels of activity required to generate a required profit.

Break-even equation Is the equation that determines Break-even point,. Let p = unit selling price, v = unit variable cost, FC = total fixed costs, x = sales in units. The equation: $px = vx + FC$.

Break-even point Is the volume point at which revenues and costs are equal; a combination of sales and costs that will yield a no profit/no loss operation.

Break-up value 1. The value of an asset on the assumption that an organization will not continue in business. On this assumption the assets are likely to be sold piecemeal and probably in haste.

2. The asset value per share of a company.

Bribery and corruption Offences relating to the improper influencing of people in positions of trust. The offences commonly grouped under this expression are now statutory. Under the Public Bodies Corrupt Practices Act (1889), amended by the Prevention of Corruption Act (1916), it is an offence corruptly to offer to a member, officer, or servant of a public body any reward or advantage to do anything in relation to any matter with which that body is concerned; it is also an offence for a public servant or officer to corruptly receive or solicit such a reward. The Prevention of Corruption Act (1906) amended by the 1916 Act is wider in scope. Under this Act it is an offence corruptly to give or offer any valuable consideration to an agent to do any act or show any favour in relation to the principal's affairs.

Bridge loan (bridging loan) Is an equity loan secured to solve short-term financing problem.

Bridging loan A loan taken on a short-term basis to bridge the gap between the purchase of one asset and the sale of another. It is particularly common in the property and housing market.

British accounting association (BAA) The major body of accounting academics in the UK, originally founded as the Association of University Teachers in Accounting. It has approximately 1000 members, a number from overseas, and issues a quarterly journal, the *British Accounting Review*.

British-american model Is an accounting model. There are other accounting systems which differ from the U.S. accounting model. U.S. GAAP and FASB standards are not the only accounting principles used internationally; for example, many countries reverse the U.S. debit and credit system. Many countries with high rates of inflation account for inflation in financial reports much more than the U.S. does. Also, for any company operating internationally there is the currency exchange translation problem when consolidating financial statements.

Broad Form Storekeepers Policy An insurance policy for a retail store with four or fewer employees that provides both fidelity and crime coverage.

Broker An agent who brings two parties together, enabling them to enter into a contract to which the broker is not a principal. The broker's remuneration consists of a brokerage, which is usually calculated as a percentage of the sum involved in the contract but may be fixed according to a tariff. Brokers are used because they have specialized knowledge of certain markets or to conceal the identity of a principal, in addition to introducing buyers to sellers.

Brokerage, Dependent upon usage, is the business of a broker; charges a fee to arrange a contract between two parties, or, the place where a broker conducts his/her business.

Brought down (**b/d**) In book-keeping, describing an opening balance that has been transferred from the previous period.

Brought forward Is the recognition of a value that was determined in the past, e.g. an accumulated balance brought forward at the start of a new accounting period.

Bucket shop A derogatory colloquial name for a firm of brokers, dealers, agents, etc., of questionable standing and frail resources, that is unlikely to be a member of an established trade organization.

Budget centre A section or area of an organization under the responsibility of a manager for which budgets are prepared; these budgets are compared with actual performance as part of the budgetary control process. A budget centre may be a function, department, section, individual, cost centre, or any combination of these that the management wishes to treat as a budget centre. It is usual to produce regular financial statements on the basis of each budget centre so that each budget-centre manager is aware of its budgeted and actual performance and any variances that arise.

Budget committee The committee responsible for the operation of the budgetary control process within an organization. The membership and responsibilities of the committee vary between organizations, but a typical committee might comprise a chief executive as chairman, the functional managers as members, and a financial manager as committee secretary or budget director. The committee is responsible for ensuring the formulation of the budgets according to the directives and policies communicated by the board of directors, scrutinizing the various budgets for coordination and acceptability, and ultimately submitting the budgets (or budget revisions) to the board of directors for approval.

Budget control Is actions carried out according to a budget plan. Through the use of a budget as a standard, an organization ensures that managers are implementing its plans and objectives. Their actual performance is measured against budgeted performance.

Budget cost allowance The amount of budgeted expenditure that a cost centre or budget centre is allowed to spend according to its budget, having regard to the level of activity (or other basis of cost incurrence) actually achieved during the budget period. The budget cost allowance is usually based on the level of activity achieved and whether the cost item is classified as a fixed cost or a variable cost.

Budget day value (**BDV**) The value of an asset on 6 April 1965. This value is used primarily in capital gains tax computations as this was the date on which the tax was introduced. Gains of long-held assets are assessed from budget day value, with the gains arising prior to this date being excluded.

Budget director The member of a budget committee who is responsible for the administration of the budgetary control process. The precise responsibilities vary between organizations, but the budget director acts as secretary to the budget committee and in this capacity coordinates the flow of information from the managers of the budget centres to the budget committee and from the budget committee to the board of directors.

Budget expenditure head A way of analysing a budget and presenting financial statements under major headings, each budget heading being the responsibility of a particular manager. Under some circumstances a manager may be responsible for more than one budget expenditure head.

Budget Is an itemized listing of the amount of all estimated revenue which a given business anticipates receiving, along with a listing of the amount of all estimated costs and expenses that will be incurred in obtaining the above mentioned income during a given period of time. A budget is typically for one business cycle, such as a year, or for several cycles (such as a five year capital budget). Of the many kinds of budgets, a CASH Budget shows Cash Flow, an Expensev budget lists expected payments of money, and a Capital budget shows the anticipated payments for Capital apital assets.

Budget manual A manual setting out the administrative procedures and operations that should be applied in the operation of the budgetary control system. It covers guidelines for the operation of the budget committee and the budget centres and includes such information as levels of responsibility, budget timetable, budget preparation, and budget-revision procedures.

Budget performance report Is the comparison of planned budget and actual performance.

Budget period A period for which a budget is prepared and during which it is intended to apply. It is usual for the budget period to be a year, but it is often broken down into shorter control periods, such as a month or a quarter. The budget periods should coincide with the accounting periods adopted by the organization.

Budgetary accounting, Contrary to financial accounting, looks forward: it measures the cost of planned acquisitions and the use of economic resources in the future.

Budgetary deficit Occurs when expenditures are greater than revenues.

Budgeted capacity The productive capacity available in an organization for a budget period as expressed in the budget for that period. It may be expressed in terms of direct labour hours, machine hours, or standard hours.

Budgeted cost A cost included in a budget representing the cost expected to be incurred by a budget centre, cost centre, cost unit, product, process, or job.

Budgeted revenue The income level included in a budget representing the income that is expected to be achieved during that budget period.

Budgeting Is the documenting of intended expenditures over a specified time period (normally one year) along with proposals for how to meet them.

Buffer Is anything that stands between two other things. For example, an inventory buffer would be additional inventory over and above committed or planned inventory. The inventory buffer will act as an inventory reserve to ensure that sufficient inventory is available when and if required, i.e., the buffer inventory stands between committed inventory and 'out-of-stock' status.

Builder's Bonds Mortgage-backed securities issued by builders on mortgages accumulated from the sales of houses.

Building society A financial institution that accepts deposits, upon which it pays interest, and makes loans for house purchase or house improvement secured by mortgages. They developed from the Friendly Society movement in the late 17th century and are non-profitmaking. They are regulated by the Building Societies Act (1986). The societies accept deposits into a variety of accounts, which offer different interest rates and different withdrawal terms, or into 'shares', which often require longer notice of withdrawal. Interest on all building-society accounts is paid net of income tax, the society paying the tax direct to the Inland Revenue. The societies attract both large and small savers, with average holdings being about £5000.B Loans made to persons wishing to purchase property are usually repaid by regular monthly instalments of capital and interest over a number of years. Another method, which has grown in popularity, is an endowment mortgage in which the capital remains unpaid until the maturity of an assurance policy taken out on the borrower's life; in these arrangements only the interest and the premiums on the assurance policy are paid during the period of the loan. Since the 1986 Act, building societies have been able to widen the range of services they offer; this has enabled them to compete with the commercial banks in many areas. They offer cheque accounts, which pay interest on all credit balances, cash cards, credit cards, loans, money transmission, foreign exchange, personal financial planning services (shares, insurance, pensions, etc.), estate agency, and valuation and conveyancing services. The distinction between banks and building societies is fast disappearing, indeed some building societies have obtained the sanction of their members to become public limited companies. These changes have led to the merger of many building societies to provide a national network that can compete with the major commercial banks. Competition is well illustrated in the close relationship of interest rates between banks and building societies as they both compete for the market's funds. Moreover, the competition provided by the building societies has forced the banks into offering free banking services, paying interest on current accounts, and Saturday opening.

Bull A dealer on a stock exchange, currency market, or commodity market who expects prices to rise. A bull market is one in which a dealer is more likely to be a buyer than a seller, even to the extent of buying without having made a corresponding sale, thus establishing a bull position. A bull with a long position hopes to sell these purchases at a higher price after the market has risen. *Compare* bear.

Bulldog bond An unsecured or secured bond issued in the UK domestic market by a non-resident borrower.

Bullet loan A loan in which the principal is repaid in a final bullet, although interest may be paid in interim payments. *Compare* amortizing loan.

Bullet The final repayment of a loan, which consists of the whole of sum borrowed.

Bunny bond A bond that gives the holder the option of receiving interest or additional bonds.

Burn rate Is the rate at which a new company uses up its venture capital to finance overhead before generating positive cash flow from operations. It is the rate of negative cash flow, usually quoted as a monthly rate.

Burn-out turnaround The process of restructuring a company that is in trouble by producing new finance to save it from liquidation, at the cost of diluting the shareholding of existing investors.

Bursary Is the treasury of a public institution or religious order.

Business Combinations Combining of two entities. Under the purchase method of accounting, one entity is deemed to acquire another and there is a new basis of accounting for the assets and liabilities of the acquired company. in a pooling of interests, two entities merge through an exchange of common stock and there is no change in the carrying value of the assets or liabilities.

Business entity concept The concept that financial accounting and reporting relates to the activities of a specific business entity and not to the activities of the owners of that entity.

Business entity Is a selection of the legal form under which a business is to operate: sole proprietorship, general partnership, corporation, S corporation (in the U.S.), or, a limited liability company.

Business entity principle Is where the business is seen as an entity separate from its owner(s) that keeps and presents financial records and prepares the final accounts and financial statements. The accounting is kept for each entity as a whole (groups of companies must present consolidated accounts and consolidated financial statements).

Business expansion scheme (BES) A former investment scheme giving full tax relief for higher-rate taxpayers making investments in qualifying companies. The scheme ended on 31 December 1993, when it was replaced by the enterprise investment scheme.

Business Interruption Insurance A policy that pays a stipulated amount when the business cannot operate because of some insured peril. For example, a policy will pay a certain percentage of the business's earnings lost because of a fire.

Business matrix, Often used in business incubators, is where separate business entities join forces to advance the development of a start-up, e.g.., one firm may offer offices, another marketing/sales assistance or manufacturing expertise, etc. Such a matrix may receive compensation in the form of equity from the start-up being assisted by that business matrix.

Business name The name under which a business trades. According to the Business Names Act (1985), if a business is conducted tinder a name other than that of the proprietor, it must display at its place of business the business name, its activity, and the name of the proprietor. All business stationery must carry both the business name and the names of the owners. The name of the business must be registered with the Registrar of Companies. Business plan A detailed plan setting out the objectives of a business over a stated period, often three, five, or ten years. A business plan is drawn up by many businesses, especially if the business has passed through a bad period or if it has had a major change of policy. For new businesses it is an essential document for raising capital or loans. The plan should quantify as many of the objectives as possible, providing monthly cash flows and production figures for at least the first two years, with diminishing detail in subsequent years; it must also outline its strategy and the tactics it intends to use in achieving its objectives. Anticipated profit and loss accounts should form part of the business plan on a quarterly basis for at least two years, and an annual basis thereafter. For a group of companies the business plan is often called a corporate plan. business property relief An inheritance tax relief available on certain types of business property. For a business or interest in a business, including a partnership share, the relief is 100%. Land or buildings owned and used in a company under the control of the donor, or a partnership in which the donor was a partner, attract 50% relief.

Business plan Is a description of a business (normally over a 1-5 year period). A basic business plan includes: product(s) and/or service(s), the market, competitor analysis, the key people involved, financing needs, and the financial rewards if the business plan is implemented successfully. A well-prepared business plan plays two important roles, firstly, it is a useful management tool that can help management plot a course for the company, and secondly, it is a vital sales tool that will impress funding sources, e.g., venture capitalists or the board of directors, with management's planning ability and general competence. Other things being equal, a well prepared business plan will increase a company's chances of obtaining a financial commitment to fund the business.

Business publications audit (BPA) is similar to the Audit Bureau of Circulation; the BPA is a third-party organization that verifies the circulation of print media through periodic audits.

Business rates The local tax paid by businesses. It is calculated annually by the local authority in which the business is situated.

Business reply service A service offered by the Post Office enabling a company to supply its customers with a prepaid business reply card, envelope, or label (either first- or second-class postage) so that they can reply to direct-mail shots, ask for follow-up literature, pay bills promptly, etc., free of postal charges.

Business segment is a component of an enterprise that (a) provides a single product or service or a group of related products and services and (b) that is subject to risks and returns that are different from those of other business segments.

Business software package One of a wide range of software programs sold in packages to enable computers to be used for a variety of business uses. They range in complexity and expense from those needed to operate a PC to the suite of programs required by a mainframe. A typical package would include one or more of: book-keeping programs, which provide facilities for keeping sales, purchase, and nominal ledgers; accounting packages, enabling balance sheets, budgetary control, and sale and purchase analysis to be undertaken automatically; payroll packages, dealing with wages, salaries, PAYE, National Insurance, pensions, etc.; database management systems to maintain company records; communications software to allow two or more computers to work together; and wordprocessors. The programs comprising the package are designed to work together and use each other's data; sometimes a single program provides one or more of these functions.

Business statistics office Until August, 1989, a department of the Department of Trade and Industry, since then a department of the Central Statistical Office. It collects statistics of British businesses and publishes *Business Monitors*.

Business unit is equivalent to a wholly owned subsidiary except that it is not treated as a separate legal entity. It is an organization within a firm that could operate separately because it has all support functions contained within the business unit. The internal financial reporting from a business unit to the corporate office is basically identical to a separate legal entity.

Business valuation Determines the price that a hypothetical buyer would pay for a business under a given set of circumstances.

Businessowner's Program An insurance policy designed for small offices or stores, covering the building and contents for full replacement cost as well as liability insurance.

Buy-Down A loan in which someone other than the borrower puts up money to reduce the interest rate or borrower's monthly payments. Frequently done by builders in poor markets. It makes the house more affordable. The buy-down usually expires within a few years.

Buyer's market Is where the quantity of goods for sale exceeds the amount consumers are willing and able to buy at the current market price. It is characterized by low prices. For example, a market condition that occurs in real estate where more homes are for sale than there are interested buyers.

Buy-in The purchase of a holding of more than 50% in a company by (or on behalf of) a group of executives from outside the company, who wish to run the company.

Buyout The purchase of a substantial holding in a company by its existing managers.

Bvi Is an acronym for British Virgin Islands (a major offshore banking and corporation player).

Bylaws Collection of formal, written rules governing the conduct of a corporation's affairs (such as what officers it will have, what their responsibilities are, and how they are to be chosen). Bylaws are approved by a corporation's stockholders, if a stock corporation, or other owners, if a non-stock corporation.

By-product A product from a process that has secondary economic significance compared to the main product of the process. For example, while the primary reason for cracking oil is to produce petroleum, other products produced as a result of the process, such as lubricating oil, paraffin, and other distillates, are by-products. *See also*joint products; process costing

By-product Is a joint product with main activity, usually of lesser value.

C

C&C Can mean: Cash and Carry or Collection & Classification.

C&F (cost & freight) Includes all shipping costs but insurance. Generally used in statement of terms, stating cost and freight are paid by the exporter from his warehouse to a port in the importer's country. In this case, the buyer is responsible for insurance.

C&I (cost & insurance), In a price that is quoted "C&I", means that the cost of the product and insurance are included in the quoted price. In this case, the cost of shipping would be borne by the buyer.

C.A. Is sometimes used to identify the Chief Accountant

C.c.c. *Abbreviation for* cwmni cyfyngedig cyhoeddus: the Welsh equivalent of plc.

C.G.A. Means Certified General Accountant.

C.M.A. Means Certified Management Accountant.

C.P.A. Means Certified Public Accountant.

Cadbury report The report of the committee set up in May 1991 by the Financial Reporting Council, the London Stock Exchange, and the accountancy profession, under the chairmanship of Sir Adrian Cadbury, to consider the financial aspects of corporate governance. The *Cadbury Report* was published in May 1992 for comment; the final report was published on 1 December 1992. The main recommendation of the committee was that the boards of all listed companies registered should comply with a code of practice and state in their financial accounts whether or not they have complied with it, identifying any areas of non-compliance. This code includes the provisions that non-executive directors should be appointed for specified terms and re-appointment should not be automatic, that such directors should be selected through a formal process, and that both their selection and their appointment should be a matter for the board as a whole.

Cafeteria Plan A benefit plan maintained by an employer for the benefit of the employees under which each participant has the opportunity to select the benefits they desire. Certain minimum choices and nondiscriminatory rules apply.

Call Can be 1. process of redeeming a bond or preferred stock issue before its normal maturity. A security with a call provision typically is issued at an interest rate higher than one without a call provision. Investors look at yield-to-call rather than yield-to-maturity;

2. right to buy 100 shares of stock at a specified price within a specified period; or, 3. option to buy (call) an asset at a specified price within a specified period.

Call Option 1. The right to buy 100 shares of a stock (or stock index, etc.) at set price. Usually, the option holder has the right, but not the obligation to purchase the property. The option expires at a set time. For example, the current price of Madison Inc. is $50. For $5 per share you can purchase a option that allows you to buy Madison stock at $52 at anytime within the next 60 days. Traded options expire at preset times.

2. The right to prepay a mortgage.

Call premium Is a premium in price above the par value of a bond or share of preferred stock that must be paid to holders to redeem the bond or share of preferred stock before its scheduled maturity date.

Call Protection The length of time during which a bond, preferred stock, etc. cannot be redeemed by the issuer.

Callable bond Is a bond the issuer has the right to pay off at issuer's discretion.

Called-up share capital The amount of the issued share capital of a company for which payment has been requested (called up). Some shares are paid for in part, for example on allotment, with subsequent calls for payment. When all calls have been paid, the called-up share capital will equal the **paid-up share capital**.

Canadian institute of chartered accountants (CICA) The professional body of practising accountants in Canada; it was originally founded in 1902 as the Dominion Association of Chartered Accountants.

Cancel supporting documents To mark supporting documents as having been used to support a transaction so the same documents can't be used to support another transaction. An example is stamping vouchers "paid.?

Candy deal Is a slang term that refers to an illegal business practice to inflate revenue/sales numbers by selling product to distributors with a pledge to buy them back later, in addition to providing a percentage kickback to the distributor for assisting in falsifying the sale.

Cap A ceiling on a charge; for example, an interest-rate cap would set a maximum interest rate to be charged on a loan, regardless of prevailing general interest-rate levels. A lender would charge a fee for including a cap at the outset to offset this risk. Caps may also limit annual increases to a certain level.

Capacity The level of productive capacity that an organization can attain under particular circumstances. It may be expressed in terms of direct labour hours, machine hours, or standard hours. *See also*budgeted capacity.

Capacity variances In standard costing, the favourable variance or adverse variance that arises as a result of the use of the actual capacity compared to the budgeted capacity available. The variance is calculated by the formula:

(actual hours worked - budgeted hours available) × absorption rate per standard hour.

Caparo case The case of *Caparo Industries plc v. Dickman* and others. In 1990 the House of Lords decided that auditors owe a duty of care to existing shareholders as a body rather than to individual shareholders.

capital 1. The total value of the assets of a person less liabilities.

2. The amount of the proprietors' interests in the assets of an organization, less its liabilities.

3. The money contributed by the proprietors to an organization to enable it to function; thus share capital is the amount provided by way of shares and the loan capital is the amount provided by way of loans. However, the capital of the proprietors of companies not only consists of the share and loan capital, it also includes retained profit, which accrues to the holders of the ordinary shares. *See also*reserve. 4. In economic theory, a factor of production, usually either machinery and plant (physical capital) or money (financial capital). However, the concept can be applied to a variety of other assets. Capital is generally used to enhance the productivity of other factors of production (e.g. combine

harvesters enhance the productivity of land; tools enhance the value of labour) and its return is the reward following from this enhancement. In general, the rate of return on capital is called profit.

Capital account, In finance, is an account of the net value of a business at a specified date; in economics, it is that part of the balance of payments recording a nation's outflow and inflow of financial securities.

Capital allowances Allowances against income tax or corporation tax available to a business, sole trader, partnership, or limited company that has spent capital on plant and machinery used in the business. Capital allowances are also given on commercial buildings in enterprise zones, agricultural buildings, industrial buildings, and hotels. The level of allowances varies according to the different categories of asset. The allowance for plant and machinery is 25% writing-down allowance and an allowance of 4% calculated by the straight-line method is available on industrial buildings. Under the current-year basis, the allowances are treated as a further expense. The capital allowance period reflects the period during which the accounts are prepared.

Capital asset Is a long-term asset that is not purchased or sold in the normal course of business. Generally, it includes fixed assets, e.g., land, buildings, furniture, equipment, fixtures and furniture.

Capital asset pricing model (CAPM) A model designed to assist a firm in choosing its investment and financing policy in order to maximize the price or value of its equity shares by determining the equilibrium relationship between return and risk. The model may also be used to determine the discount rate or cost of capital to be used in the organization's investment decisions. It is used in portfolio theory, in which the expected rate of return (E) on an investment is expressed in terms of the expected rate of return (r m) on the market portfolio and the beta coefficient (ß), i.e.

$E = R + ß(r \text{ m} - R)$,

Where R is the risk-free rate of return.

Capital budget Is the estimated amount planned to be expended for capital items in a given fiscal period. Capital items are fixed assets such as facilities and equipment, the cost of which is normally written off over a number of fiscal periods. The capital budget, however, is limited to the expenditures that will be made within the fiscal year comparable to the related operating budgets.

Capital budgeting (capital investment appraisal; investment appraisal) The process by which an organization appraises a range of different investment projects with a view to determining which is likely to give the highest financial return. The approaches adopted include net present value, internal rate of return, profitability index, the accounting rate of return, and the payback period method.

Capital contribution Is cash or property acquired by a corporation from a shareholder without the receipt of additional stock.

Capital cover The capital value of a portfolio, often a portfolio of property, divided by the capital sum to be financed. The lower the capital cover, the higher the risk.

Capital duty A duty imposed by the European Community in 1973 to replace certain elements of the UK's stamp duty. Capital duty was abolished with effect from 16 March 1988.

Capital employed Is the value of the assets that contribute to a company's ability to generate revenue, i.e, fixed assets plus current assets minus current liabilities.

Capital expenditure (CAPEX) Is the amount used during a particular period to acquire or improve long-term assets such as property, plant or equipment.

Capital funds Is the total of capital debentures, if any, capital stock, if any, surplus, undivided profits, unallocated reserves, guaranty fund, and guaranty fund surplus.

Capital gain Is the excess of selling price over purchase price, which may be given special treatment for tax purposes provided the sale takes place more than a given number of months after purchase.

Capital gains tax (CGT) A tax on capital gains, introduced on 6 April 1965. It is charged on the total amount of the chargeable gains accruing to a chargeable person in a fiscal year after deducting any allowable capital losses for the year or capital losses brought forward from a previous year. The rate of capital gains tax depends on the other income for the year; it can be charged at a rate of 10%, 23%, or 40%, or a mixture of these. Gains arising on disposal of assets on or after 29 November 1994 may be deferred if the gain is reinvested in shares acquired under the enterprise investment scheme within specified time limits.

Capital improvement, In real estate, is any permanent structure or other asset added to a property that adds to its value. In general, it is any value added activity or cost to a long-term or permanent asset that increases its value.

Capital infusion Often refers to the cross-subsidization of divisions within a firm. When one division is not doing well, it might benefit from an infusion of new funds from the more successful divisions. In the context of venture capital, it can also refer to funds received from a venture capitalist to either get the firm started or to save it from failing due to lack of cash.

Capital instruments The means used by companies to raise finance, including shares, debentures, and loans; it also includes options and warrants that give the holder the right to subscribe for or to obtain capital instruments. The proper accounting treatment is given in Financial Reporting Standard 4, Capital Instruments.

Capital intensive Is used to describe industries or sectors of the economy that require large investments in capital assets to produce their goods, such as the automobile industry. These firms require large profit margins and/or low costs of borrowing to survive.

Capital lease Is a lease obligation that has to be capitalized on the balance sheet. It is characterized by: it is non-cancelable; the life of lease is less than the life of the asset(s) being leased; and, the lessor does not pay for the upkeep, maintenance, or servicing costs of the asset(s) during the lease period.

Capital loss Is the excess of purchase price over selling price when the assets have been held for more than a certain period of time and which is given a special treatment for tax purposes.

Capital maintenance concept 1. The financial capital maintenance concept is that the capital of a company is only maintained if the financial or monetary amount of its net assets at the end of a financial period is equal to or exceeds the financial or monetary amount of its net assets at the beginning of the period, excluding any distributions to, or contributions from, the owners.

2. The physical capital maintenance concept is that the physical capital is only maintained if the physical productive or operating capacity, or the funds or resources required to achieve this capacity, is equal to or exceeds the physical productive capacity at the beginning of the period, after excluding any distributions to, or contributions from, owners during the financial period.

Capital maintenance Contains two concepts, a financial concept and a physical concept. Most entities adopt a financial concept of capital maintenance. Under this concept a profit is earned only if the monetary amount of net assets at the end of the period, excluding distributions/contributions to/from owners, exceeds the monetary amount of net assets at the beginning of the period. Financial capital maintenance is usually measured in monetary units; however, the requirement to report the impact of hyperinflation results in the measurement of assets and liabilities in monetary units of constant purchasing power.

Capital market Is a market where equity or debt securities are traded.

Capital Projects Funds Funds used by a not-for-profit organization to account for all resources used for the development of a land improvement or building addition or renovation.

Capital rationing Is restrictions put of the amount planned for new expenditures.

Capital redemption reserve A reserve created if a company purchases its own shares in circumstances that result in a reduction of share capital. It is a reserve that cannot be distributed to the shareholders and thus ensures the maintenance of the capital base of the company and protects the creditors' buffer.

Capital reduction Means reducing a company's stated capital base.

Capital replacement, Or economic depreciation, is the portion of the value of machinery and equipment, in addition to repairs, that is used up in the production of a particular commodity. It is based on the current value of the machinery. Capital replacement may be regarded as a discretionary expense in any particular year. It may be deferred when income is low but ultimately must be paid to maintain the capital stock so that over the long term, the operation remains in business.

Capital reserve Is a fund set aside for specific purposes, thereby cannot be distributed for other uses.

Capital risk The risk, in a lending operation, that the capital amount of the investment may be less than its par value, even at maturity.

Capital spare Is the parts within inventory that are purchased as spare parts for depreciable assets (e.g., capital equipment). As such, the capital spares within inventory are depreciable and should not be treated as normal inventory.

Capital Stock Ownership shares of a corporation authorized by its articles of incorporation. The money value assigned to a corporation's issued shares. The balance sheet account with the aggregate amount of the par value or stated value of all stock issued by a corporation.

Capital structure (financial structure) The balance between the assets and liabilities of a company, the nature of its assets, and the composition of its borrowings. The assets may be fixed (tangible or intangible) or current (stock, debtors, or creditors); the borrowings may be long- or short-term, fixed or floating, secured or unsecured. Ideally the assets and liabilities should be matched.

Capital structure Refers to the permanent long-term financing of a company. Capital structure normally includes common and preferred stock, long-term debt and retained earnings. It does not include accounts payable or short-term debt.

Capital to risk asset ratio (CRAR) Is one of the most widely used analytical measures of bank capital adequacy and a tool for controlling bank risk. Since risk assets are always less than total assets, the capital/risk asset ratio is naturally higher than the capital/total asset ratio for any given computational period.

Capital transactions Transactions relating to share capital and reserves, long-term debt capital, or fixed assets of a company, as opposed to revenue transactions. For example, the purchase of a building is a capital transaction, while the maintenance of a building is a revenue transaction.

Capital transfer tax (CTT) A tax introduced in 1974 to replace estate duty and to deal with some of the anomalies arising from it. The capital transfer tax legislation introduced tax on lifetime transfers of money and assets as well as on the estate on death. The rate of CTT on death was affected by all the lifetime gifts made with, initially, no restriction for those within a certain period before death. CTT applied to lifetime gifts made after 29 March 1974 and to estates from 13 March 1975. In March 1986 sweeping changes to capital transfer tax were made and the name was changed to inheritance tax.

Capital turnover The ratio of sales of a company or other organization to its capital employed (i.e. its assets less current liabilities). It is presumed that the higher this ratio, the better the use that is being made of the assets in generating sales.

Capital, In economics, can mean: factories, machines, and other man-made inputs into a production process. In finance, capital is money and other property of a corporation or other enterprise used in transacting the business.

Capitalization Is the statement of capital within the firm - either in the form of money, common stock, long-term debt, or in some combination of all three. It is possible to have too much capital (in which case the firm is overcapitalized) or too little capital (in which case the firm is undercapitalized).

Capitalization of borrowing costs The cost of borrowing specifically to fund the purchase of a fixed asset or the development of investment property. It may be included in the capitalized cost of the fixed asset.

Capitalization of maintainable earnings Is a valuation method; perhaps the most generally accepted method that involves capitalizing the future maintainable earnings by the application of a suitably chosen capitalization rate or multiple. The definition of earnings may be profit after tax ("PAT") or earnings before interest and tax ("EBIT"). This methodology, which in reality is a surrogate for the discounted cash flow method, requires consideration of several factors, including: a. an estimate of future maintainable earnings having regard to historical operating results and forecasts of future earnings; b. determination of an appropriate capitalization rate which will reflect the risks inherent in the business including sensitivity to industry risk factors, growth prospects, the general economic outlook and alternative investment opportunities; and c. a separate assessment of any surplus or unrelated assets and liabilities which are not essential to the continuing earning capacity of the business operations.

Capitalization rate, Also known as CAP RATE, is the rate of return a property will produce on the owner's investment. It is stated as a rate of interest or discount rate used to convert a series of future payments into a single 'present value'. In real estate, the rate includes annual capital recovery in addition to interest.

Capitalize, In general business, it is to supply with capital, as of a business by using a combination of capital used by investors and debt capital provided by lenders; or, to consider expenditures as capital assets rather than expenses. Specifically, it is to: a) convert a schedule of income into a principal amount, called *capitalized value*, by dividing by a rate of interest; b) record capital outlays as additions to asset accounts, not as expenses; c) convert a lease obligation to an asset/liability form of expression called a *capital lease*, i.e., to record a leased asset as an owned asset and the lease obligation as borrowed funds; or d) turn something to one's advantage economically, e.g., sell umbrellas on a rainy day.

Capitalized Cost Expenditure identified with goods or services acquired and measured by the amount of cash paid or the market value of other property, capital stock, or services surrendered. Expenditures that are written off during two or more accounting periods.

Capitalized interest Is the accrued interest added to the principal balance of a loan while you are not making payments or your payments are insufficient to cover both the principal and interest due. When this occurs, you are paying interest on interest, sometimes called "negative amortization".

Capitalized labor Means all direct costs of labor that can be identified or associated with and are properly allocable to the construction, modification, or installation of specific items of capital assets and, as such, can thereby be written down over time via a depreciation or amortization schedule as capitalized costs.

CAPM *Abbreviation for* capital asset pricing model.

Captive distributor Is one held under control of another but having the appearance of independence; especially: owned or controlled by another concern and operated for its needs rather than for an open market.

Captive finance company A finance company controlled by an industrial or commercial company.

Captive insurance company An insurance company set up by one or more commercial or industrial companies with the object of insuring their risks.

Carnet Is a customs document which permits you to send or carry merchandise into a country duty and tax free for a short period, for use as samples or as display merchandise in a trade show, for example.

Carriage inwards Delivery costs of goods purchased. If the costs relate to fixed assets, they may be capitalized with the cost of the fixed asset on the balance sheet.

Carriage outwards Delivery costs of goods sold. This is a business expense, which is written off to the profit and loss account for the period.

Carried down (c/d) In book-keeping, describing an amount that is to be transferred as the opening balance in the next period.

Carry forward (CF) Is data items that will always carry forward into subsequent transactions. If the item is allowed per the required/conditional matrix and no entry is made, the new transaction will reflect the data from the most current record. For example, if the new transaction to be added is current (in sequence), the CF data item will carry forward the data from the prior active record. If the new transaction to be added is out-of-sequence and no entry is made, the CF data item will reflect the data from the current status record. If the item is not allowed, the new transaction will reflect the data from the prior active record.

Carrying amount The balance-sheet value of an asset or liability. For example, a fixed asset, such as a building, will be shown at the historical cost less the accumulated depreciation to date, using the historical-cost convention. Under alternative accounting rules it can be shown at the revalued amount less the accumulated depreciation to date.

Carrying cost The cost of holding stock from the date of receipt to the date of disposal, or for any other specified period. These costs include warehousing, insurance, and security.

Carrying Value Amount, net or contra account balances, that an asset or liability shows on the balance sheet of a company. Also known as book value.

Carryovers Provision of tax law that allows current losses or certain tax credits to be utilized in the tax returns of future periods.

Case-based reimbursement, In healthcare, is a hospital payment system in which a hospital is reimbursed for each discharged inpatient at rates prospectively established for groups of cases with similar clinical profile and resource requirements.

Cash & equivalents Means all cash, marketplace securities, and other near-cash items. Excludes sinking funds.

Cash Legal tender in the form of banknotes and coins that are readily acceptable for the settlement of debts.

Cash accounting An accounting scheme for value added tax enabling a taxable person to account for VAT on the basis of amounts paid and received during the period of the VAT return. Relief for bad debts is automatically available under this scheme. In order to qualify for the scheme taxable supplies must not be expected to exceed £350,000 in the coming 12month period. A business already in the scheme is allowed a 25% tolerance limit and so is permitted to stay in the scheme if turnover does not exceed £437,500.

Cash against documents (CAD) Is a transaction where the buyer assumes ownership/title for the goods being purchased upon paying the agreed upon sale price in cash.

Cash at bank The total amount of money held at the bank by a person or company, either in current or deposit accounts. It is included in the balance sheet under circulating assets.

Cash Basis Method of bookkeeping by which revenues and expenditures are recorded when they are received and paid.

Cash basis of accounting Is the accounting basis in which revenue and expenses are recorded in the period they are actually received or expended in cash. Use of the cash basis generally is not considered to be in conformity with generally accepted accounting principles (GAAP) and is therefore used only in selected situations, such as for very small businesses and (when permitted) for income tax reporting..

Cash book Is a book that records all payments and receipts of business transactions – whether by cash, check or credit card.

Cash budget Tracks a business's anticipated cash receipts and disbursements. This is a very detailed and important schedule that draws on information in the Operating Budget.

Cash clearing account Represents a clearing account for voided and reissued imprest cash checks. It is also used for miscellaneous corrections of imprest cash checks.

Cash cows Are products that produce a large amount of revenue or margin because they have a large share of an existing market which is only expanding slowly.

Cash cycle Is the length of time, normally stated in numbers of days, between the purchase of raw materials and the collection of accounts receivable generated in the sale of the final product.

Cash debt coverage ratio Is the ratio of net cash provided by operating activities to average total liabilities, called the cash debt coverage ratio, is a cash-basis measure of solvency. This ratio indicates a company's ability to repay its liabilities from cash generated from operating activities without having to liquidate the assets used in operations.

Cash disbursements/payments journal Is the journal recording all disbursements (or payments).

Cash discount Is a refund of some fraction of the amount paid because the purchase price is paid by the buyer in cash, as opposed to making the purchase on credit or, sometimes, credit card or check.

Cash dividend Is the payment of earnings to shareholders.

Cash earnings Is cash revenues minus cash expenses. This differs from earnings in that it does not include non-cash expenses such as depreciation.

Cash Equivalents Short-term (generally less than three months), highly liquid investments that are convertible to known amounts of cash.

Cash float Notes and coins held for the purpose of being able to give change to customers.

Cash flow analysis Is a type of financial analysis that compares the timing and amount of cash inflows with the timing and amount of cash outflows. A firm's cash flow position can greatly affect its ability to remain in business. These effects may not be apparent from a cost-benefit analysis.

Cash flow from operations Is the sum of all the individual operating activity cash flow line items, less cash realized from the sale of extraordinary items, e.g., fixed assets.

Cash flow Is earnings before depreciation and amortization. Cash flow is calculated as the difference between cash inflows and outflows. Cash flow can be derived from Operating Profit by adjusting for items which do not affect payments (e.g. depreciation) and items (e.g. changes in working capital) which affect payments but are not recorded in Operating Profit.

Cash flow projection Is a forecast of the cash (checks or money orders) a business anticipates receiving and disbursing during the course of a given span of time - frequently a month. It is useful in anticipating the cash portion of your business at specific times during the period projected.

Cash flow to capital expenditure ratio A ratio calculated by dividing a company's cash flows from operations less dividends by the expenditures for plant and equipment. It demonstrates a company's ability to maintain its plant and equipment from its own resources, rather than from borrowing.

Cash free balance amount, In the general ledger, usualy represents the net amount of Balance Forward plus Allocations plus Revenue minus Expenditures minus Encumbrances.

Cash from financing Is the sum of all the individual financing activity cash flow line items.

Cash from investing Is the sum of all the individual investing activity cash flow line items.

Cash in advance Is when full payment is due before the merchandise is shipped. Least risk to seller, most risk to buyer.

Cash in bank Literally means coin, currency, and cash items on deposit.

Cash Is money, in the form of notes and coins, which constitutes payment for goods at the time of purchase.

Cash on hand Literally means coin, currency, and cash items on hand. It is not possible to have negative cash on hand.

Cash portion Is that percentage of assets consisting of the legal tender of the amounts in question; the balance of which is the non-cash portion; an example, a transaction where a corporation is acquired via a combination of cash and stock.

Cash profit Is profit after tax plus depreciation.

Cash ratio Is a refinement to the quick ratio. It is the ratio of cash and marketable securities to current liabilities. The CASH RATIO indicates the extent to which liabilities could be liquidated immediately. Sometimes called liquidity raito.

Cash receipts journal Is the journal for recording all cash receipts.

Cash reserve ratio (CRR) Is a ratio which banks have to maintain with itself in the form of cash reserves or by way of current account with the Reserve Bank, computed as a certain percentage of its demand and time liabilities. The objective is to ensure the safety and liquidity of the deposits with the banks.

Cash sale A sale made for cash, rather than on credit terms. Cash sales should be entered in the cash book rather than the sales day book.

Cash short/over account, In retail sales, is where any differences between the cash register tape totals and the actual cash receipts is charged against the cash short and over account. If the ending balance of the account is a debit it is shown on the Income Statement as a miscellaneous expense. If the ending balance of the account is a credit it is shown on the Income Statement as Other Revenue.

Cash to current liabilities ratio A ratio calculated by dividing a company's cash and marketable securities by its current liabilities. It demonstrated the company's ability to satisfy short-term financial obligations.

Cash-card Is a credit card that entitles the holder to receive cash.

Cash-flow accounting (CFA; cash accounting) A system of accounting that records only the cash payments and receipts relating to transactions made by a business, rather than when the money is earned or when expenses are incurred, as in accrual accounting. It is claimed to be easier to understand and less arbitrary in its allocation processes than accrual accounting. It may be used in place of or in addition to accrual accounting and is reflected in a cash-flow statement.

Cash-flow budget (cash budget; cash-flow forecast; cash-flow projection; financial budget) A budget that summarizes the expected cash inflows and the expected cash outflows of an organization over a budget period, usually prepared on a monthly basis. It is the result of the analysis in cash-flow terms of the functional budgets and the capital budget, adjusted by other cashflow items, such as interest, tax, and dividend payments. It is used as a planning aid to determine when cash surpluses are likely to be available for investment or when cash deficits are likely to arise requiring additional finance.

Cash-flow statement A statement showing the inflows and outflows of cash and cash equivalents for a business over a financial period. The inflows and outflows are classified under the headings of operating activities, dividends from joint ventures and associated returns on investments, and servicing of finance, taxation, capital expenditure and financial investment, acquisitions and disposals, equity dividends paid, management of liquid resources, and financing. Financial Reporting Standard 1 issued by the Accounting Standards Board requires certain companies to publish a cashflow statement in their annual report and accounts (*see*annual accounts).

Cash-flow to total-debt ratio A ratio for assessing the solvency of a company, calculated by dividing the cash flow from operations by the total liabilities. It indicates a company's ability to satisfy its debts.

Cash-On-Cash Return Usually reserved for real estate income properties, it's the annual cash flow from the property divided by your cash investment. Sometimes called return on equity or equity dividend rate. It's a quick and dirty way to evaluate an investment.

Cash-payments journal A journal recording payments of cash from an organization's bank account. This journal may be Combined with a cashreceipts journal to form a cash book.

Cash-receipts journal A journal recording receipts of cash into an organization's bank account. This journal may be combined with a cashpayments journal to form a cash book.

Casualty Loss Any loss of an asset due to fire storm act of nature causing asset damage from unexpected or accidental force. Generally it is deductible regardless of whether it is business or personal.

Caveat, Generally, is a warning against certain acts; in law, is a formal notice filed with a court or officer to suspend a proceeding until filer is given a hearing.\

CCA *Abbreviation for* current cost accounting.

CCAB *Abbreviation for* Consultative Committee of Accountancy Bodies.

CEDEL *Abbreviation for* Centrale de Livraison de Valeurs Mobilières.

Ceiling An amount equal to the net realizable value of an asset. The market cannot exceed the ceiling (upper limit) when employing the lower of cost or market method of inventory valuation. If market is greater than the ceiling, the latter is chosen.

Central bank A bank that provides financial and banking services for the government of a country and its commercial banking system as well as implementing the government's monetary policy. The main functions of a central bank are: to manage the government's accounts; to accept deposits and grant loans to the commercial banks; to control the issue of banknotes; to manage the public debt; to help manage the exchange rate when necessary; to influence the interest rate structure and control the money supply; to hold the country's reserves of gold and foreign currency; to manage dealings with other central banks; and to act as lender of last resort to the banking system. Examples of major central banks include the Bank of England in the UK, the Federal Reserve Bank of the USA, the Bundesbank in Germany, the Banque de France, and the Bank of Japan.

Centrale de Livraison de Valeurs Mobilières (CEDEL) A settlement service for eurobonds in

Luxembourg. It is owned by a consortium of international banks.

CEO Is an acronym for Chief Executive Officer. The CEO is the principle individual responsible for the activities of a company.

Certificate of Compliance. A vendor's certification that the supplies or services delivered meet certain specified requirements.

Certificate of deposit (CD) Is a document written by a bank or other financial institution that is evidence of a deposit, with the issuer's promise to return the deposit plus earnings at a specified interest rate within a specified time period.

Certificate of incorporation The certificate that brings a company into existence; it is issued to the shareholders of a company by the Registrar of Companies. It is issued when the memorandum of association and articles of association have been submitted to the Registrar of Companies, together with other documents that disclose the proposed registered address of the company, details of the proposed directors and company secretary, the nominal and issued share capital, and the capital duty. The statutory registration fee must also be submitted. Until the certificate is issued, the company has no legal existence.

Certificate of inspection Is certification, generally by an independent third party, that the goods were in good condition at the time of shipment.

Certificate of insurance A certificate giving abbreviated details of the cover provided by an insurance policy. In a motor-insurance policy or an employers'-liability policy, the information that must be shown on the certificate of insurance is laid down by law and in both cases the policy cover does not come into force until the certificate has been delivered to the policyholder.

Certificate of obligation Is a bond issued by a city, without voter approval.

Certificate of origin Is a document that states where the goods were made. This document is legally required for many countries for the importation of merchandise.

Certificate of value A statement made in a document certifying that the transaction concerned is not part of a transaction (or series of transactions) for which the amount involved exceeds a certain value. The statement is made in relation to stamp duty, denoting that either it is not payable or it is payable at a reduced rate.

Certificate to commence business A document issued by the Registrar of Companies to a public company on incorporation; it certifies that the nominal value of the company's allotted share capital is at least equal to the authorized minimum of £50,000. Until the certificate has been issued, the company cannot do business or exercise its borrowing powers.

Certified accountant A fellow or associate of the Chartered Association of Certified Accountants.

Certified check A depositor's cheque (check), which a bank guarantees to pay.

Certified public accountant (CPA) A member of the American Institute of Certified Public Accountants. The title is conferred by state authorities; a certified public accountant is licensed to give an audit opinion on a company's financial statements.

Cessation In the context of a business, the ceasing of trading. **C/f** *Abbreviation for* carried forward.

Certified Financial Planner (CFP) Individual who is trained to develop and implement financial plans for individuals, businesses, and organizations, utilizing knowledge of income and estate tax, investments, risk management analysis and retirement planning. CFPs are certified after completing a series of requirements that include education, experience, ethics and an exam. CFPs are not regulated by a governmental authority.

Certified financial statements Are financial statements that have undergone a formal audit by a certified public accountant and usually contain statements of certification by the CPA.

Certified Internal Auditor (CIA) Internal auditor who has satisfied the examination requirements of the Institute of Internal Auditors.

Certified Management Accountant (CMA) An accreditation conferred by the Institute of Management Accountants that indicates the designee has passed an examination and attained certain levels of education and experience in the practice of accounting in the private sector.

Certified payroll report Means the record that a contractor or subcontractor engaged on a public work is required to submit to an awarding government body with a statement of compliance as required pursuant to regulations for each month in which the contractor or subcontractor employs one or more workmen in connection with the public work.

Certified public accountant (CPA) Is an accountant licensed to practice public accounting.

Cfm, In finance / accounting, means Certified In Financial Management.

Cfo Is an acronym for Chief Financial Officer. The CFO is the officer in a corporation responsible for handling funds, signing checks, the keeping of financial records, and financial planning for the company.

Chairperson of the board Is the head of the board of directors of a corporation, and generally considered as head of the firm.

Channel costing Is the fulfillment cost information pertaining to distribution channels.

Chapter s or **subchapter s** Is a legal corporate entity organized under the United States Federal Tax Code that allows Subchapter S Corporations to distribute all income / loss proportionately to its shareholders, who then claim that income / loss on their personal income taxes; thereby avoiding the payment of corporate taxes.

Charge 1. A legal or equitable interest in land, securing the payment of money. It gives the creditor in whose favour the charge is created (the chargee) the right to payment from the income or proceeds of sale of the land charged, in priority to claims against the debtor by unsecured creditors.

2. An interest in company property created in favour of a creditor (e.g. as a debenture holder) to secure the amount owing. Most charges must be registered by the Registrar of Companies (*see also*register of charges). A fixed charge (or specific charge) is attached to a specific item of property (e.g. land); a floating charge is created in respect of circulating assets (e.g. cash, stock in trade), to which it will not attach until crystallization, i.e. until some event (e.g. winding-up) causes it to become fixed. Before crystallization, unsecured debts can be paid out of the assets charged. After, the charge is treated as a fixed charge and therefore unsecured debts (except those given preference under the Companies Acts) rank after those secured by the charge. A charge can also be created upon shares. For example, the articles of association usually give the company a lien in respect of unpaid calls, and company members may, in order to secure a debt owed to a third party, charge their shares, either by a full transfer of shares coupled with an agreement to retransfer upon repayment of the debt or by a deposit of the share certificate.

Charge account (credit account) An account held by a customer at a retail shop that allows payment of any goods purchased at the end of a stated period (usually one month). While the large stores usually offered this facility without charging interest, it is now usual for interest to be charged on any amounts unpaid after the stated period. The customer is identified by means of a plastic charge card**.** If this is lost or stolen it is the customer’s responsibility to notify the store immediately.

Charge and discharge accounting A form of accounting used in the manorial system of the Middle Ages, in which individuals charge themselves with sums or estate they should receive and credit themselves with sums paid out.

Chargeable assets All forms of property, wherever situated, unless they are specifically designated as non-chargeable. Exempt assets, for capital gains tax, include motor cars, National Savings Certificates, foreign currency for private use, betting winnings, damages for personal or professional injury, life-insurance policies for those who are the original beneficial owners, works of art of national importance given for national purposes, principal private residences, gilt-edged securities, certain chattels and investments under personal equity plans.

Chargeable event Any transaction or event that gives rise to a liability to income tax or to capital gains tax.

Chargeable gain A capital gain arising as a result of the disposal of an asset, unless the legislation provides otherwise. The exceptions are:

Gains resulting from proceeds that are taxable under income tax or corporation tax;

Gains covered by various exemptions (e.g. personal exemption from capital gains tax of £7100 for 1999-2000 for a tax year);

Gains not charged in full, as part of the gain occurred before 6 April 1965.

Chargeable person Any person resident, or ordinarily resident, during the year in which a chargeable gain assessable to capital gains tax was made as the result of that person disposing of an asset.

Chargeable transfer Certain lifetime gifts that are transfers of value not covered by any of the exemptions and are therefore liable to inheritance tax. If such a lifetime gift is not a potentially exempt transfer, it is a chargeable transfer. If the gift is a potentially exempt transfer, but death occurs within seven years, then that potentially exempt transfer becomes a chargeable transfer.

Chargeback, In the credit industry, occurs when a credit card processor "charges back" to the merchant the cost of returned items or incorrect orders that the customer claims were made to his or her credit card.

Charges forward An instruction to the effect that all carriage charges on a consignment of goods will be paid by the consignee after he receives them.

Charitable contribution A donation made by a business to an organization being run for charitable purposes.

Charity accounts The accounts of a charitable organization showing receipts (such as donations, grants, and fund-raising amounts received) and payments made (such as expenses, grants, and donations given). The specific regulations the charity will be required to conform to depend upon its legal form and its size. The Charities Act (1993) introduced a new accounting regime for charities.

Charity Commissioners The board that acts as both an adviser to, and an investigator of, charities. It is responsible to parliament and is governed by the Charities Act (1993).

Chart of accounts Is a list of ledger account names and associated numbers arranged in the order in which they normally appear in the financial statements. The Chart of Accounts are customarily arranged in the following order: Assets, Liabilities, Owners' Equity (Stockholders' Equity for a corporation), Revenue, and Expenses.

Charter Is the document of corporation organization.

Chartered accountant (CA) Is a British accountant who is a member of the Institute of Chartered Accountants. They work in many areas of business and the public sector, in roles ranging from sole practitioner to chief executive of a multinational company. In public practice firms, they provide professional services to a wide range of fee paying clients from private individuals to large commercial and public sector organizations, including banks. The seservices include audit/assurance, accountancy, tax, business advisory, management consultancy, systems and IT,corporate finance, corporate recovery and forensic accounting. In commerce/ industry and the public sector, they work in a variety of roles including fund management, venture capital and equity analysis, as well as financial management and financial reporting roles.

Chartered accountant A person who is a member of the Institute of Chartered Accountants.

Chartered association of certified accountants The association that was formed in 1938 as the Association of Certified and Corporate Accountants, as a result of the amalgamation of the Corporation of Accountants (Glasgow; 1891) and the London Association of Accountants (1904). In 1941 the Institute of Certified Public Accountants joined the association.

Chartered company A company incorporated by Royal Charter rather than by the Companies Act or by a private act of parliament.

Chartered financial consultant (ChFC) Is a financial planning designation for the insurance industry. ChFCs must meet experience requirements and pass exams covering finance and investing. They must have at least three years of experience in the financial industry, and have studied and passed an examination on the fundamentals of financial planning, including income tax, insurance, investment and estate planning.

Chartered Institute of Management Accountants (CIMA) The association that was founded in 1919 as the Institute of Cost and Works Accountants. Its members work mainly in industry and commerce. *See also* management accounting.

Chartered Institute of Public Finance and Accountancy (CIPFA) The association that was founded in 1885 as the Corporate Treasurers and Accountants Institute. Its members work principally in public-sector accounting.

Chartered Institute of Taxation (*until 1994* **the Institute of Taxation)** A professional institute for those engaged in working within the taxation field, in accountancy practices, legal firms, banks, and in commerce. An Associate of the Institute is designated ATII and a Fellow FTII.

Chartist An investment analyst who uses charts and graphs to record past movements of the share prices, P/E ratios, turnover, etc., of individual companies to anticipate the future share movements of these companies. Claiming that history repeats itself and that the movements of share prices conform to a small number of repetitive patterns, chartists have been popular, in the past. It is now more usual for analysts to use broader techniques in addition to those used by chartists.

Chattel exemption A gain on the disposal of a chattel that is exempt from capital gains tax if the proceeds of the disposal are less than £6000. It does not apply to wasting assets.

Chattel mortgage contract Is a credit contract used for the purchase of equipment where the purchaser receives title of the equipment upon delivery but the creditor holds a mortgage claim against it.

Check digit A redundant digit added to a code to check accuracy of other characters in the code.

Check Is a draft drawn against a bank, payable upon demand to the person/entity named upon the draft.

Check register A listing of checks issued, normally in numeric sequence and in order by date issued.

Check register Is the journal for recording payments by check.

Cheque A preprinted form on which instructions are given to an account holder (a bank or building society) to pay a stated sum to a named recipient. It is the most common form of payment of debts of all kinds (*see also*current account).

In a crossed cheque two parallel lines across the face of the cheque indicate that it must be paid into a bank account and not cashed over the counter (a general crossing). A special crossing may be used in order to further restrict the negotiability of the cheque, for example by adding the name of the payee's bank. Under the Cheques Act (1992) legal force is given to the words 'account payee' on cheques, making them non-transferable and thus preventing fraudulent conversion of cheques intercepted by a third party. An open cheque is an uncrossed cheque that can be cashed at the bank of origin. An order cheque is one made payable to a named recipient 'or order', enabling the payee to either deposit it in an account or endorse it to a third party, i.e. transfer the rights to the cheque by signing it on the reverse. In a blank cheque the amount is not stated; it is often used if the exact debt is not known and the payee is left to complete it. However, the drawer may impose a maximum by writing 'under £ . . .' on the cheque. A rubber cheque is one that is 'bounced' back to the drawer because of insufficient funds in the writer's account; a stale cheque is one in which more than three months have elapsed between the cheque's date and its presentation. In the USA the word is spelled check.

Cheque-in facility A machine that will print on a cheque the amount of the cheque in machine-readable form. These machines are used mainly by banks to assist them in processing cheques, although companies are being encouraged to use them in order to reduce their bank charges.

Chinese wall A notional information barrier between the separate divisions, departments, or teams of a business to ensure that no improper or price-sensitive unpublished information passes between them.

Churn rate Is the percentage of customers (e.g., cellular telephone subscribers) that cancels their service per month.

Cia, In accounting, is an acronym for Certified Internal Auditor; or, Cash in Advance.

Cibt Is an acronym for Cash Income Before Taxes.

CIF (COST, INSURANCE AND FREIGHT) Is a shipment where all shipping costs are paid by the exporter, including insurance.

CIP Could be Capital Improvement Plan, Capital Improvement Program, Capital Investment Program, or Capital Investment Proposal(s).

Circularization of debtors A technique used by an auditor in which all debtors to a company are asked to confirm the amounts outstanding (positive circularization) or to reply if the amount stated is incorrect or in dispute (negative circularization). The object is to ensure that the debts do exist and are correctly valued in the financial statements of a company.

Circulating assets (**circulating capital; current assets; floating assets**) The assets of an organization that are constantly changing their form and are circulating from cash to goods and back to cash again. Cash is used to purchase raw materials, which become work in progress when issued to a production department. The work in progress becomes finished goods, which once they are sold, become debtors or cash from an accounting point of view. Debtors are ultimately changed into cash when they pay, thus completing the cycle. *Compare* fixed asset.

City Code on Takeovers and Mergers A code first laid down in 1968, and subsequently modified, giving the practices to be observed in company takeovers (*see*takeover bid) and mergers. Encouraged by the Bank of England, the code was compiled by a panel (the Takeover Panel) including representatives from the London Stock Exchange Association, the Issuing Houses Association, the London Clearing Bankers, and others. The code does not have the force of law but the panel can admonish offenders and refer them to their own professional bodies for disciplinary action.

The code attempts to ensure that all shareholders, including minority shareholders, are treated equally, are kept advised of the terms of all bids and counterbids, and are advised fairly by the directors of the company receiving the bid on the likely outcome if the bid succeeds. Its many other recommendations are aimed at preventing directors from acting in their own interests rather than those of their shareholders, ensuring that the negotiations are conducted openly and honestly, and preventing a spurious market arising in the shares of either side.

City The financial district of London in which are situated the head offices of the banks, the money markets, the foreign exchange markets, the commodity and metal exchanges, the insurance market (including Lloyd's), the London Stock Exchange, and the offices of the representatives of foreign financial institutions. Occupying the square mile on the north side of the River Thames between Waterloo Bridge and Tower Bridge, it has been an international merchanting centre since medieval times.

Claim for Refund A refund is not automatically mailed if one is due. A taxpayer, whether business or individual, must file a request on a form. It must also be filed within the timeframe allotted or the refund may be lost. An individual can claim a refund back to whatever year it was due but it will only be paid three years back or less.

Claim, In health care, is an itemized statement of healthcare services and their costs provided by a hospital, physician's office, or other provider facility. Claims are submitted to the insurer or managed care plan by either the plan member or the provider for payment of the costs incurred. In general law, a claim is: 1) to make a demand for money, for property, or for enforcement of a right provided by law. 2) the making of a demand (asserting a claim) for money due, for property, from damages or for enforcement of a right. If such a demand is not honored, it may result in a lawsuit. In order to enforce a right against a government agency (ranging for damages from a negligent bus driver to a shortage in payroll) a claim must be filed first. If rejected or ignored by the government, a lawsuit may be filed.

Claims-Made Basis Under this type of insurance policy the insurer is responsible only for *claims filed* during the period the policy is in force.

Claims-Occurrence Basis With this type of insurance policy the insurer is responsible for claims from events that occurred during the time the policy was in force. It makes no difference when the claim is filed. ***Example—***A customer slips on a wet floor in your store in March 1997. You're covered by Madison Insurance. The customer doesn't file a claim until a year later when you're covered under a new company, Chatham. Under a claims-occurrence basis policy you'd report the claim to Madison, the insurer at the time the accident occurred. Under a claims-made basis you'd report the claim to Chatham, the insurer at the time the claim is filed.

Class action A legal action in which a person sues as a representative of a class of persons who share a common claim.

Classification Arrangement or grouping. Assets and liabilities are normally classified as current or noncurrent.

Clawback The right to recall new shares issued by means of a vendor placing to outsiders. Existing shareholders have a right to recall these shares if the vendor placing represents 10% or more of the issued share capital.

Clean Opinion audit opinion not qualified for any material scope restrictions nor departures from generally accepted accounting principles (GAAP). Also known as unqualified opinion.

Clearance letter Is a documented certification from a recognized authority that the cleared entity has satisfied certain requirements, payments, actions, etc.

Cleared balance A balance on a bank account, excluding any receipts that do not yet represent cleared value.

Cleared for fate Denoting the date on which the payer's bank has confirmed that funds are available to provide value for a transfer in accordance with the instructions given in a cheque, etc. *See* clearing cycle.

Cleared items Are accounts payable documents which have been paid.

Cleared value Denoting the time at which a credit to a customer's bank account becomes available to him. The cleared balance is used for calculating interest and for establishing the undrawn balance of an agreed overdraft facility. *See also* clearing cycle.

Clearing account, In banking, is a bank account used by a mortgage servicing company for the temporary, short-term deposit of mortgage payments that have been collected and are either awaiting transmittal to investors who bought the mortgages or awaiting deposit in escrow accounts.

Clearing cycle The process by which a payment made by cheque, etc., through the banking system is transferred from the payer's to the payee's account. Historically the average time for the clearing cycle to be completed was three days, although by 1994 this had been reduced to two days in many cases. However, with this reduction in the cycle, the payee's bank may not have received confirmation from the payer's bank that funds are available to provide value, cleared for fate.

Clearing house A centralized and computerized system for settling indebtedness between members. It which enables the member banks to offset claims against one another for cheques and orders paid into banks other than those upon which they were drawn. Similar arrangements exist in some commodity exchanges, in which sales and purchases are registered with the clearing house for settlement at the end of the accounting period.

Clearing house interbank payments system (CHIPS) A US bankers' clearing house for paying and accepting funds. It is an electronic system operated through terminals in bank branches. Participating banks must be members of the New York Clearing House Association or affiliates of it, for example foreign banks operating in the USA can only take part through selected correspondents among the 12 New York Clearing Houses. Outside New York, similar transactions are undertaken through Fedwire, a clearing system for members of the Federal Reserve System.

Client Is someone who pays for goods or services.

Close company A company resident that is under the control of five or fewer participators or any number of participators who are also directors.

Close family The family members of an individual, or members of the individual's household, who may be expected to influence, or be influenced by, that person in their dealings with an entity, thus leading to relatedparty transactions.

Close family The family members of an individual, or members of the individual's household, who may be expected to influence, or be influenced by, that person in their dealings with an entity, thus leading to relatedparty transactions.

Close investment holding company A close company that does not exist wholly or mainly as a trading company, a property company letting to third parties, or a holding company of a trading company.

Closed-end funds Funds in which the capital is fixed, such as those held by investment companies, rather than open-ended, such as unit trusts.

Closed-End Mutual Fund Mutual fund with a fixed number of shares outstanding that may be bought or sold.

Closely Held Corporation A corporation with five or fewer shareholders who own more than 50% in value of the stock at any one time during the year. Note, this is the IRS definition. In common usage the definition can be broader.

Closely held Is a description of a corporation whose voting stock is owned by a very small number of shareholders.

Closing account Is the determining the balance of an account and posting an entry to offset such balance.

Closing balance The debit or credit balance on a ledger at the end of an accounting period, which will be carried forward to the next accounting period. A debit closing balance (such as an accrual) will be carried forward to the credit side of a ledger and a credit closing balance (such as a prepayment) will be carried forward to the debit side of a ledger.

Closing entries Final entries made at the end of an accounting period to close off the income and expense ledgers to the profit and loss account.

Closing entry Is a journal entry at the end of a period to transfer the net effect of revenue and expense items from the income statement to owners' equity.

Closing stock The stock remaining within an organization at the end of an accounting period as raw materials, work in progress, or finished goods. It is necessary to establish the level of closing stocks so that the cost of their creation is not charged against the profits of the period (*see*opening stock). Closing stocks are therefore valued and deducted from the costs of the period and appear as circulating assets in the balance sheet.

Closing-rate method A method of restating the figures in a balance sheet in another currency using the closing rate of exchange for all assets and liabilities, i.e. The rate of exchange quoted at the close of business on the balance-sheet date.

Cluster sampling A method of selecting a sample in which the population is divided into clusters (groups) from each of which a random sample is taken. This technique is used in an audit. For example, groups of, say, invoices are chosen at random by the auditor and then each item in each group is examined in detail.

COA, In accounting, means Chart Of Accounts or Cost of Acquisition.

COD Is Cash On Delivery; which is exactly what it means.

Coding, In accounting, is the assignation of the proper account code to invoices.

Cogas Is Cost Of Goods Available for Sale.

Cogm Is Cost Of Goods Manufactured.

Cognovit note Is a note in which the maker acknowledges the debt and authorizes the entry of judgment against him or her without notice or a hearing : a note containing a confession of judgment. This type of note is not valid in many states.

Cohort survival method, In academia, utilizes historic enrollment data and birth records to estimate future enrollments.

Coinsurance Amount Limit. A requirement under burglary insurance that a minimum amount of insurance be maintained, based on the type and amount of merchandise.

Coinsurance Clause In the case of a partial loss where the property is not insured for the indicated percentage of its cash value at the time of the loss, the recovery from the company is based on a percentage. ***Example*—**Your insurance policy contains a coinsurance clause of 80%. Your building sustained \$100,000 in damages. The actual cash value of the property at the time of the loss was \$500,000, but you only carried \$300,000 of insurance. Based on the coinsurance clause, you should have had coverage of \$400,000 (80% of \$500,000). You can't recover the full \$100,000 in damages. Instead, your recovery is limited by the percentage of your coverage (\$300,000/\$400,000) times the loss, or \$75,000. If you had coverage of \$400,000, your insurance would have reimbursed you for the full \$100,000 loss.

Cold calling A method of selling a product or service in which a sales representative makes calls, door-to-door, by post, or by telephone, to people who have not previously shown any interest in the product or service.

Collar An option that, in return for a premium, fixes the maximum (cap) and minimum (floor) rate of interest payable on a loan.

Collateral Is assets used as security for the extension of a loan.

Collateral note Is a note secured by collateral. Same as secured note.

Collateralization To pledge mortgages, bonds, accounts receivable or other marketable properties as security for a loan.

Collateralize To pledge assets to secure a debt. If the borrower defaults on the terms and conditions of the agreement the assets will be forfeited.

Collateralized mortgage obligation (CMO) Or, since 1986, as a Real Estate Mortgage Investment Conduit (REMIC). CMOs and REMICs (terms which are often used interchangeably) are similar types of securities which allow cash flows to be directed so that different classes of securities with different maturities and coupons can be created. They may be collateralized by mortgage loans as well as securitized pools of loans.

Collateralized Mortgage Obligation (CMO) Security whose cash flows equal the difference between the cash flows of the collateralizing assets and the collateralized obligations of a securitized trust. Characteristics of cmo residuals vary greatly and can be extremely complex in nature.

Collectibles Items, such as art, stamps, and antiques, that are acquired not only for their aesthetic merits but because they are a potential source of capital gains and of inflation protection.

Collecting bank (remitting bank) The bank to which a person who requires payment of a cheque (or similar financial document) has presented it for payment.

Collection account A bank account opened for the specific purpose of reducing bank float for remittances from specific customers or groups of customers, usually those that are abroad or who pay in a foreign currency.

Collection papers Are those documents specified as necessary for payment to be made, such as the commercial invoice, certificate of inspection, and bill of lading.

PERIOD ratios (Period Average and Period End) suggests the direction in which AR collections are moving, thereby giving an indication as to potential impacts to cash flow.

Collection period (period end) Is used to appraise accounts receivable (AR). This ratio measures the length of time it takes to convert your average sales into cash. This measurement defines the relationship between accounts receivable and cash flow. A longer average collection period requires a higher investment in accounts receivable. A higher investment in accounts receivable means less cash is available to cover cash outflows, such as paying bills. **NOTE:** Comparing the two **COLLECTION PERIOD** ratios (Period Average and Period End) suggests the direction in which AR collections are moving, thereby giving an indication as to potential impacts to cash flow.

Collective bargaining Bargaining between employers and employees over wages, terms of employment, etc., when the employees are represented by a trade union or some other collective body.

Collective investment scheme, Globally, is any arrangement for pooling several investors' funds so that the pooled fund can obtain economies of scale and a spread of investments beyond the reach of individual investors. It is usually called an investment company in the U.S.A.

Collectivism An economic system in which much of the planning is carried out by a central government and the means of production owned by the community. This system was formerly common in several eastern-bloc countries.

Collector of Taxes A civil servant responsible for the collection of taxes for which assessments have been raised by Inspectors of Taxes and for the collection of tax under PAYE.

Collusion 1. An agreement between two or more parties in order to prejudice a third party, or for any improper purpose. Collusion to carry out an illegal, not merely improper, purpose is punishable as a conspiracy.

2. In legal proceedings, a secret agreement between two parties as a result of which one of them agrees to bring an action against the other in order to obtain a judicial decision for an improper purpose. 3. A secret agreement between the parties to a legal action to do or to refrain from doing something in order to influence the judicial decision. For instance, an agreement between the plaintiff and the defendant to supress

certain evidence would amount to collusion. Any judgment obtained by collusion is a nullity and may be set aside.

Columnar accounts Accounts set out in several columns; it is common to present a trial balance in this way. By adding across the columns adjustments are automatically fed into the financial statements.

Co-managers Banks that rank after lead managers in marketing a new issue, usually a eurobond. They are usually chosen for their ability to place a large portion of the issue with their customers.

Combined financial statement Is a financial statement that merges the assets, liabilities, net worth, and operating figures of two or more affiliated companies. A combined statement is distinguished from a consolidated financial statement of a company and subsidiaries, which must reconcile investment and capital accounts.

Comfort Letter Letter provided by a company's independent public accountant to an underwriter when the underwriter has a due diligence responsibility under Section 11 of the Securities Act of 1933 regarding financial information included in an offering statement.

Commercial attaché Is a business and trade expert on the staff of a consulate or embassy. They are responsible for promoting exports of their country's goods and are an excellent source of help.

Commercial bank Is a financial institution that provides commercial banking services. A commercial bank accepts deposits, gives business loans and provides other services to businesses.

Commercial Blanket Bond A bond that covers employee theft by one or more employees up to a fixed amount.

Commercial loan Is a short-term business loan usually issued for a term of up to six months.

Commercial paper Is short-term obligations with maturities ranging from 2 to 270 days issued by corporations, banks, or other borrowers to investors who have temporarily idle cash on hand. Commercial paper is usually unsecured and discounted.

Commission A payment made to an intermediary, such as an agent, salesman, broker, etc., usually calculated as a percentage of the value of the goods sold. Sometimes the whole of the commission is paid by the seller (e.g. An estate agent's commission but in other cases (e.g. Some commodity markets) it is shared equally between buyer and seller. In advertising, the commission is the discount (usually between 10% and 15%) allowed to an advertising agency by owners of the advertising medium for the space or time purchased on behalf of their clients. A

Commission agent is an agent specializing in buying or selling goods for a principal in another country for a commission.

Commissions paid account An account used to record commissions paid by an organization to agents and others. In a double-entry system, the commissions paid account is debited and the bank account (or the creditors' account until it is paid) is credited. This account may be combined with the commissions received account.

Commissions received account An account used to record commissions received by an organization. In a double-entry system, the commissions received account will be credited and the bank account (or the debtors' account until it is received) is debited. This account may be combined with the commissions paid account.

Commitment based accounting Is where spending controls are enacted that ensures that no budget executor can exceed his annual appropriation.

Commitment fee A fee charged by a bank to keep open a line of credit or to continue to make available unused loan facilities. Usually the annual charge is made by the lender on the daily undrawn balance of the facility and is often expressed in basis points.

Commitment Is the act of standing behind a policy whose value ends when the policy is concluded. For example: " We made a commitment to do this".

Commitments for capital expenditure Expenditure on fixed assets to which a company is committed for the future. The aggregate amounts of contracts for capital expenditure not provided for in the accounts for the year and the aggregate amount of capital expenditure authorized by the directors but not yet accounted for should be disclosed in the notes to the accounts (according to the Companies Act, Schedule 4). These disclosures will usually be made in the directors' report.

Committed costs Are costs, usually fixed costs, which the management of an organization has a long-term responsibility to pay. Examples include rent on a long-term lease and depreciation on an asset with an extended life.

Committed facility An agreement between a bank and a customer to provide funds up to a specified maximum at a specified interest rate (usually based upon an agreed margin over the London Inter Bank Offered Rate) for a certain period. The total cost will be the interest rate plus the mandatory liquid asset cost. The agreement will include the conditions that must be adhered to by the borrower for the facility to remain in place. *Compare* uncommitted facility.

Committee of Sponsoring Organizations of the Treadway Commission (COSO) An alliance of five professional organizations dedicated to disseminating appropriate internal control standards.

Committee on Accounting for smaller entities A specialist committee established by the Accounting Standard Board to advise it on the application of accounting standards to smaller entities. It was instrumental in the development of the Financial Reporting Standard for smaller entities.

Commodity 1. A raw material traded on a commodity market, such as grain, coffee, cocoa, wool, cotton, jute, rubber, pork bellies, or orange juice (sometimes known as soft commodities or softs) or metals and other solid raw materials (known as hard commodities). In some contexts soft commodities are referred to as produce.

2. A good regarded in economics as the basis of production and exchange.

Commodity code Codes applied to each classification of direct material and other products used or produced by an organization. The codes facilitate recording in the material and finished goods control systems.

Commodity contract A contract for settlement by receipt or delivery of a commodity.

Common Control In tax parlance, the situation where a group of five or fewer persons own more than 50% of an undertaking and therefore have the ability (whether or not it is exercised) to direct operations.

Common costs 1. In process costing, those costs incurred by a process before the point at which the joint products or by-products are subjected to separate treatment. The common costs, therefore, must be borne by all the output, i.e. by the main product, the joint products, and the byproducts.

2. Costs regarded as unchanged as a result of a managerial decision. For example, if an increase in production is being considered, the total rent payable would be described as a cost common to both the situations before and after the production increase as the rent did not change as a result of the decision to increase production.

3. Costs that are common to a number of processes or products and are therefore shared by them. Common costs are usually fixed costs and require apportionment to the appropriate processes or products.

Common equity Is the result of subtracting redeemable and non-redeemable preferred stock from total equity.

Common law Is an unwritten body of law based on general custom in England; it is used to some extent in the United States.

Common size analysis, As used in vertical analysis of financial statements, an item is used as a base value and all other accounts in the financial statement are compared to this base value. On the balance sheet, total assets equal 100% and each asset is stated as a percentage of total assets. Similarly, total liabilities and stockholder's equity are assigned 100%, with a given liability or equity account stated as a percentage of total liabilities and stockholder's equity. On the income statement, 100% is assigned to net sales, with all revenue and expense accounts then related to it in percentages.

Common size percentages - In the Income Statement, each "Common Size %" is the field amount expressed as a percent of "Net Revenues." In the Balance Sheet, each "Common Size %" is the amount in the category as a percent of "Total Assets. "RATIO ANALYSIS" as prepared by VentureLine presents several standard "Key Ratios" to compare this firm to any of several standards. This firm's ratios may be compared to industry standards, to a single other firm of similar (or different) type, or to this firm's past or anticipated performance. In this analysis VentureLine uses industry data based upon the SIC Code of that particular listing (when available).

Common Stock Capital stock having no preferences generally in terms of dividends, voting rights or distributions.

Common stock Is the most frequently issued class of stock; usually it provides a voting right but is secondary to preferred stock in dividend and liquidation rights.

Common-size financial statements A method of analysing and comparing financial statements by expressing the individual elements as percentages of the total. For example, with profit and loss accounts all the costs would be expressed as a percentage of the sales figure. It is then possible to compare these percentages with those for another company or the industry average; these comparisons enable conclusions to be drawn on the performance of the company.

Commorientes Persons who die at the same time. If two people die simultaneously, or if it is uncertain who died first, it is assumed that the older person died first in so far as the devolution of their property is concerned. Thus, if two people are killed in a car crash, a bequest from the younger to the elder is treated as having lapsed.

Comp0site depreciation Is the grouping of similar assets or dissimilar assets within the same class together for the purpose of computing a single depreciation rate to be applied to all assets within the group.

Companies Acts The acts of parliament that are concerned with companies. The first act bearing this name was passed in 1862. Many subsequent measures have been enacted, but since 1980 they have been strongly influenced by the European Union and the company law harmonization programme. The Companies Act (1985) served to consolidate a number or earlier measures.

Company A corporate enterprise that has a legal identity separate from that of its members; it operates as one single unit, in the success of which all the members participate. An incorporated company is a legal person in its own right, able to own property and to sue and be sued in its own name. A company may have limited liability (a limited company), so that the liability of the members for the company's debts is limited. An unlimited company is one in which the liability of the members is not limited in any way. There are various different types of company: a chartered company is one formed under Royal Charter; a joint-stock company is a company in which the members pool their stock, trading on the basis of their joint stock.

A registered company, one registered under the Companies Acts, is the most common type of company. A company may be registered either as a public limited company or a private company. A public limited company must have a name ending with the initials 'plc' and have an authorized share capital of at least £50,000, of which at least £12,500 must be paid up. A private company is any registered company that is not a public company. The shares of a private company may not be offered to the public for sale. A statutory company is a company formed by special act of parliament.

There are legal requirements placed on companies to make certain financial information regarding their activities public. Such information normally comprises a profit and loss account and balance sheet and is included with other financial and non-financial information in an annual report and accounts (*see*annual accounts). The term is often used more widely to refer to any association of persons, such as a partnership, joined together for the purpose of conducting a business, although legally there are significant differences.

Company auditor A person appointed as an auditor of a company under the Companies Act, which requires that a company's annual financial statements must be audited. Since 1989 only registered auditors are eligible for appointment.

Company doctor 1. A businessman or -woman or an accountant with wide commercial experience, who specializes in analysing and rectifying the problems of ailing companies. The company doctor may either act as a consultant or may recommend policies and be given executive powers to implement them. 2. A medical doctor employed by a company, either fulltime or part-time, to look after its staff, especially its senior executives, and to advise on medical and public-health matters.

Company formation The procedure to be adopted for forming a company. The subscribers to the company must send to the Registrar of Companies a statement giving details of the registered address of the new company together with the names and addresses of the first directors and secretary, with their written consent to act in these capacities. They must also give a declaration (declaration of compliance) that the provisions of the Companies Acts have been complied with and provide the memorandum of association and the articles of association. Provided all these documents are in order the Registrar will issue a certificate of incorporation and a certificate enabling it to start business. In the case of a public limited company additional information is required.

Company kit, Normally, is a for sale commercially packaged self-instruction product containing written instructions, forms, software (sometimes), for establishing an enterprise.

Company Level Controls Controls that exist at the company level that have an impact on controls at the process, transaction, or application level.

Company limited by guarantee An incorporated organization in which the liability of members is limited by the memorandum of association to amounts that they have agreed to undertake to contribute in the event of winding up. This is a less popular form of company than the company limited by shares.

Company limited by guarantee Is where the liabilities of the members will be restricted to the amount each agrees to contribute to the assets of the company in the event of dissolution or liquidation.

Company limited by shares Is where the members personal liabilities are limited to the par value of their shares. a company limited by guarantee.

Company seal The common seal with the company's name engraved on it in legible characters. It is used to authenticate share certificates and other important documents issued by the company. The articles of association set out how and when the seal is to be affixed to contracts. Unless it is affixed to any contract required by English law to be made under seal, the company will not be bound by that contract.

Company secretary An officer of a company. The appointment is usually made by the directors. The secretary's duties are mainly administrative, including preparation of the agenda for directors' meetings. However, the modern company secretary has an increasingly important role; he or she may manage the office and enter into contracts on behalf of the company. Duties imposed by law include the submission of the annual return and the keeping of minutes. The secretary of a public company is required to have certain qualifications, set out in the Companies Act (1985).

Comparability Is the quality or state of being similar or alike.

Comparable Properties. One of the ways of appraising real estate (or other property) is to find recent selling prices of properties that are comparable to the one being appraised. If the properties are not identical, an appraiser can make adjustments.

Comparative advantage The relative efficiency in a particular economic activity of an individual or group of individuals over another economic activity, compared to another individual or group. One of the fundamental propositions of economics is that if individuals or groups specialize in activities in which their comparative advantage lies, then there are gains from trade. This proposition, first outlined by David Ricardo (1772-1823), is one of the main arguments for free trade and against such restrictions as tariffs and quotas.

Comparative figures Figures given for previous years in the financial statements of an organization for the purpose of comparison. Corresponding figures for the previous financial year are required by law. If accounting policies have changed or a prior-year adjustment has been made, comparative figures may need to be adjusted to make them meaningful.

Comparative Financial Statement Financial statement presentation in which the current amounts and the corresponding amounts for previous periods or dates also are shown.

Compare (comparison) An audit procedure. The auditor observes similarities and differences among similar items such as an account from one year to the next.

Compatibility The ability of two or more different types of computer to use the same programs and data. Two computers are said to be compatible if the same machine code can run on both without alteration. Computers from different manufacturers are rarely compatible, unless this is a deliberate feature of the design. For example, many microcomputers are designed to be compatible with the IBM PC. Manufacturers are increasingly making their small machines compatible with their larger ones. This is called upward compatibility: programs written for the smaller computer will run on the larger, but not vice versa. This ensures that customers can easily upgrade their machines when necessary. The term is also used of parts of a computer system, either hardware (e.g. Terminals) or software (e.g. Spreadsheets), meaning that two or more specified brands or versions can be substituted for each other.

The term plug compatible describes peripheral devices that can be joined to a computer by a standard interface, or plug.

Compensating balances Are the funds a business might be required to keep in a deposit or reserve account to help offset what the bank perceives as risk. The lender might require that an amount based on the business' average account balance or a certain percentage of the face value of the loan be maintained in a deposit account.

Compensating error Is the name given to the situation where one mistake cancels out the effect of a second mistake.

Compensation for loss of office A lump-sum ex gratia payment made to an employee or director as compensation for the termination of a service contract. The payment can be wholly or partly tax free provided that the employee is not entitled to the compensation under the service contract.

Compensatory Balance Funds that a borrower must keep on deposit as required by a bank.

Competence of An internal audit staff is a function of qualifications, including education, certification, and supervision. Competent audit evidence is valid and reliable

Competitive bought deal A form of underwriting agreement, generally similar to a straightforward bought deal, in which the borrower seeks simultaneous competitive quotations from a number of banks for the purchase of an entire new issue of bonds, or similar securities, at a fixed price.

Competitive pricing Generally is where firms must be able to offer the best price in the market and meet price erosion without compromising quality. This is normally met whenever a firm finds acceptable a prices-production combination such that: a. At these prices, there is no other production plan yielding higher profits and using fewer capital goods; namely, firms behave as constrained profit maximizers at given prices; and, b. There is no price vector satisfying "a." with higher prices for capital goods. In other words, the prices of capital goods are maximal within those satisfying constrained profit maximization

Compilation Engagement Agreement between a CPA firm and its client to issue a compilati0n report.

Compilation Is the presentation of financial statement information by the entity without the accountant's assurance as to conformity with Generally Accepted Accounting Principles (GAAP). In performing this accounting service, the accountant must conform to the AICPA Statements on Standards for Accounting and Review Services (SSARS).

Completed contract method of accounting Is a method of revenue recognition for long-term contracts (i.e., contract which span more than one accounting period) whereby the total contract revenue and related cost of performance are recognized in the period in which the contract is completed. This method stands in contrast to the percentage-of-completion method of accounting and is most often used when significant uncertainty exists with respect to the total cost of performing the contract and, accordingly, the ultimate amount of profit to be recognized thereon.

Completeness Assertions about completeness deal with whether all transactions and accounts that should be in the financial statements are included. For example, management asserts that all purchases of goods and services are included in the financial statements. Similarly, management asserts that notes payable in the balance sheet include all such obligations of the entity.

Completion Bond A guarantee provided by a bonding company to a lender or other party that the contractor will turn over the property to the owner free of any claims.

Completion risk The inherent risk in limited recourse financing of a construction project that construction will not be completed. *Compare* technological risk; supply risk.

Complex Trust A trust that is to be distinguished from a simple trust in the fact that it permits accumulation or distribution of current income during the tax year and provides for charitable contributions.

Compliance audit Is the review of financial records to determine whether the entity is complying with specific procedures or rules.

Compliance Following applicable rules or laws.

Compliance panel Is a multi-member committee chartered to investigate conformance to laws, rules or regulations. On many occasions they may be empowered by government agencies to make rulings as to compliance or non-compliance of any entity under their perusal.

Compliance tests Tests used during an audit to determine the effectiveness of a company's control procedures. The extent of compliance testing will depend upon the extent to which specific controls are relied upon. Results of compliance testing will indicate the necessary level of substantive testing (tests of transactions, balances, etc.). If controls are found to be working well, substantive testing may be reduced to some extent.

Composite financial statement Is an average or index of financial statements of multiple accounting periods or companies, e.g., industry averages.

Compound annual growth rate (CAGR) Is the year over year growth rate applied to an investment or other part of a company's activities over a multiple-year period. The formula for calculating CAGR is (Current Value/Base Value) ^ (1/# of years) - 1.

Compound discount The difference between the value of an amount in the future and its present discounted value. For example, if £100 in five years' time is worth £65 now, the compound discount will be £35. The compound discount will depend upon the rate of discount applied.

Compound interest Is interest calculated from the total of original principal plus accrued interest.

Compound interest principle Is where the interest is computed on principal plus interest earned in previous periods.

Compound journal entry Is a journal entry that involves more than one debit or more than one credit or both.

Comprehensive annual financial report (**CAFR**) In the USA, the official annual report of the government.

Comprehensive basis of accounting A complete set of rules other than U.S. GAAP applied to all items in a set of financial statements. Examples include a basis of accounting required by a regulatory agency, a basis of accounting the entity uses for its income tax return and the cash receipts and disbursements basis.

Comprehensive Income Change in equity of a business enterprise during a period from transactions and other events and circumstances from sources not shown in the income statement. The period includes all changes in equity except those resulting from INVESTMENTS by owners and distributions to owners.

Comptroller Is the misspelling of the word CONTROLLER caused by confusion in the root of the word in French and Latin. Comptroller is sometimes used within titles in the government, e.g. Comptroller of the Currency.

Compulsory liquidation Is the winding-up of a company by a court. A petition must be presented both at the court and the registered office of the company. Those by whom it may be presented include: the company, the directors, a creditor, an official receiver, and the Secretary of State for Trade and Industry. The grounds on which a company may be wound up by the court include: a special resolution of the company that it be wound up by the court; that the company is unable to pay its debts; that the number of members is reduced below two; or that the court is of the opinion that it would be just and equitable for the company to be wound up. The court may appoint a provisional liquidator after the winding-up petition has been presented; it may also appoint a special manager to manage the company's property. On the grant of the order for winding-up, the official receiver becomes the liquidator and continues in office until some other person is appointed, either by the creditors or the members.

Computer controls Internal controls performed by computer (software controls) as opposed to manual controls. Also means general and application controls over the computer processing of data.

Computer-assisted audit techniques (**caats**) Techniques developed by auditors for performing compliance tests and substantive tests on computer systems for firms in which the data being audited is processed by computers and held on computer files. There are two main categories of technique.

(1) The auditor creates a set of input data to be processed by the computer programs; the results are then checked against the expected results.

(2) Computer audit software is used by the auditor to select data from a number of files. Various operations are then performed on the data and the results are transferred to a special audit file to be printed out in a required format.

Concealment Intentionally withholding adverse facts that are known when you're obligated to reveal them.

Conceptual framework A statement of theoretical principles that provides guidance for financial accounting and reporting.

Concessions In real estate, free rent, allowances for alterations, etc., or similar payments or allowances from a landlord to induce a tenant to sign a lease.

Condensed financial statements are presented in considerably less detail than complete financial statements.

Conditional In insurance parlance, a contract requiring the insured to meet specified conditions to obtain payment for any losses.

Conditional sales contract Is a credit contract used for the purchase of equipment where the purchaser doesn't receive title of the equipment until the amount specified in the contract has been paid in full.

Conducive Is tending to bring about or being partly responsible for, e.g. current working conditions may not be conducive to productivity.

Conduit debt Is issued by a state agency or public corporation on behalf of borrowers which include businesses, health care institutions, private higher education institutions, local governments, and qualified individuals (loans for higher education and housing purposes). No State credit support is provided.

Conduit Is a primary means by which something is transmitted,

Confidence level (**confidence coefficient**) The probability that a range of numbers calculated from a sample of a population includes the value of the population parameter being estimated.

Confirm (confirmation) Communication with outside parties to authenticate internal evidence.

Confirmation AUDITOR'S receipt of a written or oral response from an independent third party verifying the accuracy of information requested.

Confirmation note A document confirming the main facts and figures of a deal between two parties, usually a deal that has been agreed verbally or by telephone. The London code of conduct recommends that the dealer records the telephone calls and that both parties send confirmation notes.

Confirming house An organization that purchases goods from local exporters on behalf of overseas buyers. It may act as a principal or an agent, invariably pays for the goods in the exporters' own currency, and purchases on a contract that is enforceable in the exporters' own country. The overseas buyer, who usually pays the confirming house a commission or its equivalent, regards the confirming house as a local buying agent, who will negotiate the best prices on its behalf, arrange for the shipment and insurance of the goods, and provide information regarding the goods being sold and the status of the various exporters.

Confiscation risk The risk that assets in a foreign country may be confiscated, expropriated, or nationalized; a non-resident owner's control over the assets may also be interfered with.

Conglomerate A group of companies merged into one entity, although they are active in totally different fields. A conglomerate is usually formed by a company wishing to diversify so that it is not totally dependent on one industry. Many tobacco firms and brewers have diversified in this way.

Connected person In the context of Companies Act (disclosure requirements for directors and connected persons), a director's spouse, child, or stepchild (under 18 years of age), a body corporate with which a director is associated, a trustee for a trust that benefits a director or connected person, or a partner of a director.

Consent letter A letter contained in a prospectus in which an expert (e.g. A firm of accountants) consents to the issue of the prospectus, together with the inclusion of any report written by that expert or any references made to that expert.

Conservatism An investment strategy aimed at long-term capital appreciation with low risk; moderate; cautious; opposite of aggressive behavior; show possible losses but wait for actual profits. Concept which directs the least favorable effect on net income.

Conservatism principle Provides that accounting for a business should be fair and reasonable. Accountants are required in their work to make evaluations and estimates, to deliver opinions, and to select procedures. They should do so in a way that neither overstates nor understates the affairs of the business or the results of operation.

Conservative investor, Dependent upon the degree of conservatism, is one that protects and preserves their principal above consideration of capital gains to the point that in the extreme they can be described as being risk averse.

Consideration 1. A promise by one party to a contract that constitutes the price for buying a promise from the other party to the contract. A consideration is essential if a contract, other than a deed, is to be valid. It usually consists of a promise to do or not to do something or to pay a sum of money.

2. The money value of a contract for the purchase or sale of securities on the London Stock Exchange, before commissions, charges, stamp duty, and any other expenses have been deducted.

Consignee 1. Any person or organization to whom goods are sent.

2. An agent who sells goods, usually in a foreign country, on consignment on behalf of a principal (consignor).

Consignment Is when goods are offered for sale on behalf of another without the seller actually purchasing or taking title to the goods. Only when there is a subsequent sale does the owner receive any payment.

Consignment note A document accompanying a consignment of goods in transit. It is signed by the consignee on delivery and acts as evidence that the goods have received. It gives the names and addresses of both consignor and consignee, details the goods, usually gives their gross weight, and states who has responsibility for insuring them while in transit. It is not a negotiable document and in some circumstances is called a way bill.

Consignment stock Stock held by one party (the dealer) but legally owned by another; the dealer has the right to sell the stock or to return it unsold to its legal owner. It is sometimes difficult to distinguish between the commercial realities of the transaction and the legal agreement. In accounting it is important that the concept of substance over form is applied and that the financial statements reflect the commercial reality. The Accounting Standards Board has issued Financial Reporting Standard 5, Reporting the Substance of Transactions, to resolve these issues.

Consignor 1. Any person or organization that sends goods to a consignee.

2. A principal who sells goods on consignment through an agent (consignee), usually in a foreign country.

Consistency Accounting postulate which stipulates that, except as otherwise noted in the Financial statement, the same accounting policies and procedures have been followed from period to period by an organization in the preparation and presentation of its financial statements.

Consistency concept A concept used in accounting that ensures consistency of treatment of like items within each accounting period and from one period to the next. It also ensures that accounting policies are consistently applied. It is a principle contained in the Companies Act and in the Statement of Standard Accounting Practice 2, Disclosure of Accounting Policies.

Consistency principle Requires accountants to apply the same methods and procedures from period to period. When they change a method from one period to another they must explain the change clearly on the financial statements.

Consolidated balance sheet The balance sheet of a group providing the financial information contained in the individual financial statements of the parent company of the group and its subsidiary undertakings, combined subject to any necessary consolidation adjustments. It must give a true and fair view of the state of affairs of a group as at the end of the financial year, and its form and content should comply with Schedule 4 of the Companies Act. If the balance sheet formats require the disclosure of the balances attributable to group undertakings (creditors, debtors, investments), the information should be analysed to show the amounts attributable to parent and fellow subsidiary undertakings of the parent company, and amounts attributable to unconsolidated subsidiaries.

Consolidated capital Is the value of all money and other assets, on a consolidated basis, used directly in business operations.

Consolidated cash-flow statement The information contained in the individual cash-flow statements of a group of undertakings combined by consolidation, subject to any consolidation adjustments. Cash-flow statements are regulated by Financial Reporting Standard 1, Cash Flow Statements.

Consolidated entity Is a user-defined combination of several consolidation units, grouped together for consolidation and reporting purposes.

Consolidated financial statements Is the end financial statement that accounts for all assets, liabilities and operating accounts of a parent and all subsidiaries.

Consolidated goodwill The difference between the fair value of the consideration given by an acquiring company when buying a business and the aggregate of the fair values of the separable net assets acquired. Goodwill is generally a positive amount. Under Financial Reporting Standard 10, Goodwill and Intangible Assets, goodwill should normally be capitalized on the balance sheet and amortized to the profit and loss account over a period not exceeding 20 years.

Consolidated income and expenditure account The information contained in the individual income and expenditure accounts of a group of organizations combined by consolidation into a single document for the group. This is subject to any necessary consolidation adjustments.

Consolidated nexus Is a consolidation of a connected series or group (usually contracts).

Consolidated profit and loss account A combination of the individual profit and loss accounts of the members of a group of organizations, subject to any consolidation adjustments. The consolidated profit and loss account must give a true and fair view of the profit and loss of the undertakings included in the consolidation. A parent company may be exempted, under section 230 of the Companies Act, from publishing its own profit and loss account if it prepares group accounts. The individual profit and loss account must be approved by the directors, but may be omitted from the company's annual accounts. In such a case, the company must disclose its profit or loss for the financial year and also state in its notes that it has taken advantage of this exemption.

Consolidated profit The combined profit of a group of organizations presented in the consolidated profit and loss account. Any intra-group items should be eliminated by consolidation.

Consolidation adjustments Adjustments that need to be made in the process of the consolidation of the accounts of a group of organizations. If there have been intra-group transactions, such as sales from one subsidiary company to another, any profits or losses resulting from these transactions should be eliminated from the consolidated financial statements. For example, if one group undertaking has sold a fixed asset to another at a profit, the profit should be eliminated from the profit and loss account and also from the book value of the asset.

Consolidation Is similar to refinancing, but there is no loan fee. It simplifies loan repayment by combining several types of federal education loans into one new loan. (In the case of Direct Loan consolidation, the interest rate may be lower than one or more of the underlying loans.)

Consortium Is an association of companies for some definite purpose.

Consortium relief A modified form of group relief applying to consortia. A consortium exists if 20 or fewer resident companies each own at least 5% of the ordinary share capital of the consortium company and together the consortium members hold at least 75% of the ordinary shares of the consortium company. Losses can be surrendered between the consortium members and the consortium company. The loss that can be surrendered is restricted to the proportion of the claimant's profits that corresponds with the surrendering company's interest in the consortium.

Constant dollar Is when the dollar amount is adjusted for inflation.

Constraint A factor of production, a shortage of which prevents an organization achieving higher levels of performance. A constraint results from the impact of a limiting factor (or principal budget factor), which must be eliminated or reduced before the constraint is removed. For example, at various times a shortage of skilled labour, materials, production capacity, or sales volume may constitute a limiting factor. Constraints are also brought into the statement of problems in linear programming.

Construction in progress Is capital assets under construction or development that have not yet been placed into service, such as a building or parking lot. Capital assets are not subject to depreciation while in a construction in progress status.

Construction Loan A loan intended only to finance the construction of a property. Usually must be converted to a term loan after construction is complete.

Constructive Receipt A taxpayer is considered to have received the income even though the monies are not in hand, it may have been set aside or otherwise made available. An example is interest on a bank account.

Constructive Total Loss A partial loss where the cost of repairing the damage is greater than the value of the property after restoration.

Consular declaration Is a formal statement to the consul of a foreign country declaring the merchandise to be shipped.

Consultative Committee of Accountancy Bodies (CCAB) A committee set up in 1970 by the six accountancy bodies to foster closer cooperation. At the time of the Accounting Standards Committee it was a valuable part of the process of setting standards but has lost that role with the establishment of the Accounting Standards Board. It still plays an active part in many financial accounting and reporting issues.

Consulted Sought advice or information.

Consulting services performed by cpas include consultations, advisory services, implementation services, product services, transaction services, and staff and support services.

Consumable Is a resource attribute representing a type of capacity. A resource with consumable capacity can have its capacity value permanently altered as a result of being tasked, e.g. chemicals in a manufacturing process or office supplies.

Consumable materials Materials that are used in a production process although, unlike direct materials, they do not form part of the prime cost. Examples are cooling fluid for production machinery, lubricating oil, and sanding discs. In circumstances in which direct materials of small value are used, such as cotton or nylon thread or nails and screws, they are sometimes treated in the same way as consumable materials.

Consumer price index (CPI) Is the measure of change in consumer prices as determined by a monthly survey by the U.S. Bureau of Labor Statistics. Among the CPI components are the costs of food, housing, transportation, and electricity (i.e., the average cost of a "basket" of goods and services). Also known as the cost-of-living index.

Consummate Is to bring to completion or fruition; conclude, e.g., consummate a business transaction.

Consumption smoothing Is aimed at protecting consumption patterns from the impact of shocks, and can take effect either before or after their occurrence. Post-shock responses include modifying consumption, raising income by mobilizing labor or selling assets, drawing on informal or formal sources of savings, or activating claims on informal insurance mechanisms.

Continental model Is an accounting model. There are other accounting systems which differ from the U.S. accounting model. U.S. GAAP and FASB standards are not the only accounting principles used internationally; for example, many countries reverse the U.S. debit and credit system. Many countries with high rates of inflation account for inflation in financial reports much more than the U.S. does. Also, for any company operating internationally there is the currency exchange translation problem when consolidating financial statements.

Contingency budget Is the amount of money required to implement a contingency plan. If an authorized entity approves a contingency plan, it would normally set aside a contingency budget, which would only be called upon if the contingency plan had to be implemented.

Contingency Is an existing condition involving uncertainty as to possible gain (gain contingency) or loss (loss contingency) that will be resolved by future events. Estimates, such as the useful life of an asset, are not contingencies. Eventual expiration of the asset's utility is not uncertain.

Contingency plan Is a plan that provides an outline of decisions and measures to be taken if defined circumstances, outside the control of the affected organization, should occur.

Contingency theory of management accounting The theory that there is no single management accounting system acceptable to all organizations or any system that is satisfactory in all circumstances in a single organization. Consequently, accounting systems are contingent upon the circumstances that prevail at any time; they must be capable of development in order to take into consideration such factors as changes in the environment, competition, organizational structures, and technology.

Contingent asset Is a possible asset from past events whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the enterprise.

Contingent Business Interruption Insurance An insurance policy that provides benefits if your earnings are reduced because of damages to another business on which yours is dependent.

Contingent consideration A payment that is contingent on a particular factor or factors occurring. The concept often used in relation to earn-out agreements.

Contingent Financing Clause A clause in a purchase and sale agreement the specifies that the buyer must be able to secure financing on reasonable terms or he can back out of the purchase.

Contingent gain A gain that depends upon the outcome of some contingency. For example, if a company is making a substantial legal claim against another organization, the company has a contingent gain (depending upon the successful outcome of the claim).

Contingent Interest Income from a note that is at least partially based on the income from the property. This is common in financing commercial real estate. For example, Fred loans

Madison $1 million at 8%. The terms also require the payment of 3% of the cash flow from the property in any year that the cash flow exceeds $750,000.

Contingent liability Is: (a) A possible obligation from past events that will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the enterprise; or

(b) A present obligation from past events but is not recognized because

(i) it is not probable that an outflow of resources will be required to settle the obligation; or

(ii) the obligation cannot be measured reliably. Some examples: in corporate reports are pending lawsuits, judgments under appeal, disputed claims, and the like, representing potential financial liability.

Contingent loss A loss that depends upon the outcome of some contingency. For example, if there is a substantial legal claim for damages against a company, there is a contingent loss, if the claim has to be settled.

Contingent Payments Payments where the amount and/or timing is dependent on other events, usually the income from the property. ***Example***—Fred buys all the stock of Madison Inc. for $250,000 plus 5% of Madison's sales in excess of $1,000,000 for two years from the date of the sale.

Continuing Accounting significance Matters of continuing accounting significance are those normally included in the permanent audit documentation, such as the analysis of balance sheet accounts, and those relating to contingencies. Such information from a prior year is used by the auditor in the current year's audit and is updated each year.

Continuing Operations Portion of a business entity expected to remain active.

Continuing Professional Education (CPE) Educational programs for certified public accountants (CPAs) to keep informed on changes that occur within the profession. State Boards for Public Accountancy and the american institute of certified public accountants (AICPA) each have separate cpe requirements.

Continuous budget Is a budget that rolls ahead each time period (e.g., month) without regard to the fiscal year, i.e., a twelve-month or other periodic forecast is always available; also called a ROLL FORWARD BUDGET.

Continuous stocktaking (**continuous inventory; continuous stock-checking; perpetual audit**) A system of stocktaking designed to ensure that all the items of stock are physically counted and reconciled with the accounting records shown on the bin cards and the stock ledger within a specified period. For example, a stocktaking team may be working continuously so that all items of stock are checked four times a year, when adjustments are made to the accounting records to adjust them to the physical stock. Continuous stocktaking is useful for determining the availability of each item of stock and establishing when stock levels reach reorder levels.

Continuously contemporary accounting (**COCOA)** A method of accounting that defines a company's financial position as the ability of that enterprise to adapt to a changing environment; it permits the recognition of general price level changes. Although favoured by some academics, practitioners have shown little interest.

Continuous-operation costing A system of costing applied to industries in which the method of production is in continuous operation; examples include electricity generation and bottling. Because the product is homogeneous, this costing system is essentially a form of average costing in which the unit cost is obtained by dividing the total production cost by the number of items produced. *Compare*process costing.

Contra A book-keeping entry on the opposite side of an account to an earlier entry, with the object of cancelling the effect of the earlier entry.

Contra account 1. Is The reduction to the gross cost of an asset to arrive at the net cost; also known as a *valuation allowance*; e.g., accumulated depreciation is a contra account to the original cost of a fixed asset to arrive at the book value; or, 2. reduction of a liability to arrive at its carrying value; e.g., bond discount, which is a reduction of bonds payable.

for doubtful accounts. Fixed assets have a contra account called accumulated depreciation.

Contract allowance Is the limit set within an agreement as to what is the maximum allowed of any given item covered under contract, e.g., home construction with a builder may have allowances or "limits" set in your contract that tell you how much the price of your house "allows" for things such as floor coverings, countertops, and cabinets.

Contract cost The total cost of a long-term contract, obtained by using contract costing techniques.

Contract costing Is mainly associated with civil engineering works, although sometimes also with the manufacture of a major engineering structure over a considerable time (for example, a contract to manufacture a turbine generator).

Contract for service A contract undertaken by a self-employed individual. The distinction between a contract for service (self-employed) and a service contract (employee) is fundamental in establishing the tax position. With a contract for service the person may hire and pay others to carry out the work, will be responsible for correcting unsatisfactory work at their own expense, and may make losses as well as profits.

Contract Interest Rate The stated, or nominal, interest rate in a contract.

Contract law Is that body of law which regulates the enforcement of contracts. Contract law has its origins thousands of years ago as the early civilizations began to trade with each other, a legal system was created to support and to facilitate that trade. The English and French developed similar contract law systems, both referring extensively to old Roman contract law principles such as consensus ad idem or caveat emptor. There are some minor differences on points of detail such as the English law requirement that every contract contain consideration. More and more states are changing their laws to eliminate consideration as a prerequisite to a valid contract thus contributing to the uniformity of law. Contract law is the basis of all commercial dealings from buying a bus ticket to trading on the stock market.

Contract rate of interest Is the interest rate specified in a contract.

Contract revenues Are the revenues recognized under % of completion method.

Contractee Is the person or entity who will receive the goods or services under the provisions of the contract.

Contractor Is the person or entity who will provide the goods or services under the provisions of the contract.

Contractual allowance, In healthcare, is the difference between what hospitals bill and what they receive in payment from third party payers, most commonly government programs; also known as contractual adjustment.

Contributed assets Are those assets, including real property assets, that are owned, leased or licensed by the contributing entity. Such contributions are normally associated with the contributing entity receiving equity interest (in a commercial exchange) or tax relief (in a charitable donation) in recognition of the value for those contributed assets.

Contribution income statement The presentation of an income statement or profit and loss account using the marginal costing or variable costing layout in which the fixed costs are not charged to the individual products produced as in absorption costing but are treated as a deduction from the total contribution of all the products. A simplified contribution income statement would appear as follows:

Product A	**Product B**
Total	
Sales revenue	Variable costs
2000	1400
5000	2900
7000	4300
Contribution	Total fixed costs
600	1200
2100	Total profit
2700	1500

Contribution margin (CM) Is the difference between sales and the variable costs of the product or service, also called marginal income. It is the amount of money available to cover fixed costs and generate profits.

Contribution margin analysis Is a technique used in brand marketing and product management to help a company decide what product(s) to add to its product portfolio. The manager asks what will happen to profits if a new product is added or an existing product is discontinued. Calculations take into account additional revenues, additional costs, effects on other products in the portfolio (referred to as cannibalization), and competitors' reactions.

Contribution margin ratio Is the computation showing CONTRIBUTION MARGIN as a percentage of sales.

Contribution/sales ratio (c/s ratio) Is a tool used in profit management. It is important to establish the C/S RATIO: C/S ratio = (Sales revenue – Variable cost of sales)/Sales revenue x 100. If a company achieves a high average marginal profit ratio of say, 40%, it does not mean that it will achieve high profits. The eventual profit will be dependent on the level of fixed costs within the organization.

Contributory Negligence A defense argument that the plaintiff did not exercise sufficient care and that this contributed to his injury.

Contributory pension A pension in which the employee, as well as the employer, contributes to the pension fund. *Compare*non-contributory pension scheme.

Control account Is a summary account in the General Ledger that is supported by detailed individual accounts in a subsidiary ledger.

Control Accounts are general ledger accounts that report totals of details included in subsidiary ledger accounts. For example, Accounts Receivable is a general ledger account with a balance equal to the total of the individual receivables included in the subsidiary accounts receivable ledger.

Control Deficiency This exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis.

Control environment is the attitude, Awareness, and actions of the board, management, owners, and others about the importance of control. This includes integrity and ethical rules, commitment to competence, board or audit committee participation, organizational structure, assignment of authority and responsibility, and human resource policies and practices.

Control Is the process of directing operations to achieve a goal.

Control period The span of time for which budgeted figures are compared with actual results. Splitting up the financial year into control periods makes control of the figures more manageable.

Control policies and procedures Control activities are the policies and procedures that help ensure management directives are carried out. Those pertinent to an audit include performance reviews, information processing, physical controls and segregation of duties.

Control Risk Measure of risk that errors exceeding a tolerable amount will not be prevented or detected by an entity's internal controls.

Controllable costs Costs identified as being controllable and therefore able to be influenced by a particular level of management. Information about those costs is therefore directed to the correct management personnel in the appropriate operating statements. In any system of responsibility accounting, managers can only be regarded as responsible for those costs over which they have some control.

Controllable expense Expenses that can be controlled or restrained by management. Some of the costs of doing business can be postponed or spread out over a longer period of time (e.g., personnel costs, travel & entertainment, marketing expense).

Controllable variance A variance arising in standard costing or budgetary control that is regarded as controllable by the manager responsible for that area of an organization. The variance occurs as a result of the difference between the budget cost allowance and the actual cost incurred for the period.

Controlled foreign company A foreign company in which a company has a 10% stake or more. The UK resident company can be charged to tax in respect of profits from the controlled foreign company if the rate of tax paid by the foreign company is less than 75% of the rate that would be payable by the company.

Controller Is usually an experienced accountant who directs internal accounting processes and procedures, including cost accounting.

Controlling interest An interest in a company that gives a person control of it. For a shareholder to have a controlling interest in a company, he would normally need to own or control more than half the voting shares. However, in practice, a shareholder might control the company with considerably less than half the shares, if the shares that he does not own or control are held by a large number of people. For legal purposes, a director is said to have a controlling interest in a company if he alone, or together with his wife, minor children, and the trustees of any settlement in which he has an interest, owns more than 20% of the voting shares in a company or in a company that controls that company.

Controls Tests Tests directed toward the design or operation of an internal control structure policy or procedure to assess its effectiveness in preventing or detecting material misstatements in a financial report.

Convenience of Termination Clause A contract clause that permits the party to terminate, at its own discretion.

Convenience store A store that trades primarily on the convenience it offers to customers. The products stocked may be influenced by local tastes or ethnic groups and the stores are often open long hours as well as being conveniently placed for customers in local shopping parades. The most successful are members of a multiple chain.

Convention Is an agreement, principle or statement expressed or implied that is used to solve given types of problems. Conventions allow a standardized approach to problem solving and behavior in certain situations. For example, placing debits on the right and credits on the left of an account is termed an accounting convention.

Conventional Loan A mortgage loan that is not backed by insurance from a government agency or other source.

Conversion Costs The costs required to convert raw materials into finished product; including direct labor and overhead.

Convertible bond Is a bond that can be converted to other securities under certain conditions.

Convertible currency Is any national currency that can be easily exchanged for that of another country.

Convertible debt Is a debt instrument which can be exercised into the security of the debtor in accordance with the conditions set forth in the debt instrument.

Convertible Is a corporate security (usually bonds, notes or preferred stock) that can be exchanged for another form of security (usually common stock).

Convertible preferred stock Is preferred stock which can be converted into common stock at the option of the holder of the preferred stock.

Convertible Term Term life insurance which is convertible into whole life without showing insurability.

Coo Is an acronym for Chief Operating Officer. The COO is responsible for the day-to-day management of a company. The COO usually reports to the CEO.

Cookie jar reserves Is an overly aggressive accrual of operating expenses and the creation of liability accounts done in an effort to reduce future year operating expenses.

Cooking the books Is when a company fraudulently misrepresents the financial condition of a company by providing false or misleading information.

Cooperative advertising Is a joint advertising strategy under which costs are shared; e.g. by a manufacturer and another firm that distributes its products.

Copyright Is a form of legal protection used to safeguard original literary works, performing arts, sound recordings, visual arts, original software code and renewals.

Core process - A process is a set of related and interdependent activities that transform an input to a system to an output with added value to a customer. It is the transformation of people, money, materials or information that is the value-added work of the organization. The core [rpcesses are those by which the organization creates its most value-added and essential transformations for the customers.

Corporate governance Is the system by which business corporations are directed and controlled. The corporate governance structure specifies the distribution of rights and responsibilities among different participants in the corporation, such as, the board, managers, shareholders and other stakeholders, and spells out the rules and procedures for making decisions on corporate affairs. By doing this, it also provides the structure through which the company objectives are set, and the means of attaining those objectives and monitoring performance.

Corporate social reporting Issues, such as employee reports, ethical reporting, green reporting, and other matters that may be considered of interest to readers of the annual and report accounts of a company in addition to information that caters for the financial interests of the shareholders. From time to time companies do disclose such information in their annual report, although it remains largely a voluntary activity.

Corporation Form of doing business pursuant to a charter granted by a state or federal government. Corporations typically are characterized by the issuance of freely transferable capital stock, perpetual life, centralized management, and limitation of owners' liability to the amount they invest in the business.

Corporation tax Is the tax payable by corporations

Corporations aggregate are composed of more than one individual, e.g. A limited company. They may be formed for special purposes by statute; the BBC is an example. Corporations can hold property, carry on business, bring legal actions, etc., in their own name. Their actions may, however, be limited by the doctrine of ultra vires.

Corporations sole are those having only one individual forming them; for example, a bishop, the sovereign, the Treasury Solicitor.

Corpus fund Is the capital of the organization; the funds generated and kept for the existence and sustenance of the organization. Normally a corpus fund denotes a permanent fund kept for the basic expenditures needed for the administration and survival of the organization.

Corpus Is often confused and misunderstood. The literal meaning of the term corpus is the main part/organ of a body. The term corpus also denotes the sum and substance of an issue/entity.

Correcting entry, A type of ADJUSTING ENTRY, is required at the end of an accounting period if a mistake was made in the accounting records during the period.

Correspondent bank Is a bank having communications and business links with the seller's bank.

Corresponding amount (comparative amount) An amount in the published financial accounts of a limited company that relates to the previous financial year. For example, the accounts will show the total sales for the current year and a corresponding amount for the previous year. Corresponding amounts are required by the Companies Act to provide a comparison. However, if the corresponding amounts are not comparable (e.g. as a result of a change of accounting policy), they should be restated; particulars of the adjustment and reasons for it should be disclosed in the notes to the accounts.

Corroborate (corroborating) (corroboration) (corroborative) To strengthen with other evidence, to make more certain.

Cost Accounting Procedures used for rationally classifying, recording, and allocating current or predicted costs that relate to a certain product or production process.

Cost accounting standards board A board established in the USA in 1970 by Congress to promote consistency in cost-accounting practices and to assist in the reporting of actual costs of government contracts. The board's responsibilities were taken over in 1980 by the Government Accounting Office.

Cost accounting The techniques used in collecting, processing, and presenting financial and quantitative data within an organization to ascertain the cost of the cost centres, the cost units, and the various operations. Cost accounting is now regarded as a division of management accounting, which also incorporates the techniques of planning, decision making, and control. In large organizations, the management team usually includes a cost accountant.

Cost accumulation methods Are the various ways in which the entries in a set of cost accounts may be aggregated to provide different perspectives on the information.

Cost accumulation The process of collecting costs as a product progresses through the production system, enabling the total cost of manufacture to be built up in a sequential fashion.

Cost allocation Is the assignment to each of several particular cost-centers of an equitable proportion of the costs of activities that serve all of them, i.e. shared cost pools.

Cost ascertainment The process of determining the costs of the operations, processes, cost centres, and cost units within an organization.

Cost assignmnet Involves assigning costs of an account to the accounts that are responsible or accountable for incurring the cost. For example, the cost of issuing purchase orders is allocated to the various objects procured. The cost assignment is done through assignment paths and cost drivers. The assignment path identifies the source account (the account whose cost is being assigned—"Issue Purchase Orders" in the above example) and destination accounts (the accounts to which the costs are being allocated—the various cost objects procured by issuing purchase orders in the above example). The cost driver identifies the measure or rationale on the basis of which the assignment needs to be done—that is, whether the costs of issuing purchase orders need to be assigned to various cost objects evenly, based on some defined percentage values, or based on some criterion, like the number of purchase orders of each cost object issued. Defining the cost drivers and assignment paths (i.e., source and destination accounts) enable proper assignment and accounting of the various costs incurred in the organization.

Cost attribution The procedures by which costs are charged to or made the responsibility of particular cost centres, and ultimately charged to the products manufactured or services provided by the organization. Procedures used to achieve cost attribution include absorption costing, marginal costing, and process costing.

Cost avoidance Is an action taken in the present designed to decrease costs in the future.

Cost basis, In securities, is the purchase price after commissions or other expenses. It is used to calculate capital gains or losses when the security is eventually sold.

Cost behaviour The changes that occur to total costs as a result of changes in activity levels within an organization. The total of the fixed costs tends to remain unaltered by changes in activity levels in the short term, whereas the total of the variable costs tends to increase or decrease in proportion to activity. There are also some costs that demonstrate semi-variable cost behaviour, i.e. they have both fixed and variable elements. The study of cost behaviour is important for breakeven analysis and also when considering decision-making techniques.

Cost pool	**Cost driver**
power	number of machine operations,
machine hours- material handling	quantity/weight of material handled
material receipt	
number of batches- of material received	production planning
number of jobs planned	sales administration
number of customer- orders received	machine set-up costs
number of jobs run	buying
number of orders placed	

Cost driver Is any activity or series of activities that takes place within an organization and causes costs to be incurred. Cost drivers are used in a system of activity-based costing to charge costs to products or services. Cost drivers are applied to cost pools, which relate to common activities. Cost drivers are not restricted to departments or sections, as more than one activity may be identified within a department.

Cost element, In cost accounting, is the lowest level component of a resource activity, or cost object.

Cost estimation The procedure that uses estimated unit costs for both direct costs and overheads in order to build up the estimated costs of products, services, and processes for the purposes of planning, control, and pricing.

Cost function A formula or equation that represents the way in which particular costs behave when plotted on a graph. For example, the most common cost function represents the total cost as the sum of the fixed costs and the variable costs in the equation $y = a + bx$, where y = total cost, a = total fixed cost, b = variable cost per unit of production or sales, and x = number of units produced or sold.

Cost in excess of billings, In percentage of completion method, is when the billings on uncompleted contracts are less than the income earned to date. These underbillings result in increased assets. Conversely, where billings are greater than the income earned on uncompleted contracts, a liability, billings in excess of costs, results.

Cost Is the amount of money that must be paid to take ownership of something; expense or purchase price.

Cost item A category of costs incurred by an organization that are of a similar nature; they are collected together both for the purposes of reporting and because they can be subjected to similar treatment by the costing system. Examples of cost items are rent, consumable materials, and sundry selling expenses.

Cost ledger control account (**cost control account**) The control account that appears in the financial accounting ledger in an accounting system in which separate books are maintained for the financial and costing records. The balance on the cost ledger control account agrees with the net total of the entries made in the cost ledger. Including the cost ledger control account in the financial accounting ledger makes the latter a self-balancing record from which a trial balance can be extracted.

Cost ledger The books of account in which the cost accounting records are contained. These records may be kept manually or be computer-based and may be either separate or integrated with the financial records.

Cost management index (CMI) Is a method for determining cost management benchmarks for public companies using published financial data. It is used to establish realistic cost reduction goals by conducting a definitive comparison of single company performance against others in that industry combined with a thorough internal expenditure analysis. This provides realistic parameters for cost cutting objectives as well as insight into which categories of products and services to target. The CMI equals cost of goods sold plus sales, general and administrative expenses, divided by your operating revenue (CMI = (COGS+SG&A)/Revenue). It is expressed as a percentage.

Cost Method An appraisal method that values a property based on the cost to reproduce it today. That amount is usually adjusted for depreciation. ***Example*—**Madison owns a 15-year old factory building. The cost to reproduce the building today would be $900,000. The appraiser adjusts that figure downward for wear and tear and, possibly, the cost to upgrade electric service, etc.

Cost object Is anything for which cost data is desired, e.g., products, product lines, customers, jobs, and organizational sub-units such as departments or divisions of a company.

Cost of capital The return, expressed in terms of an interest rate, that an organization is required to pay for the capital used in financing its activities. As the capital of an organization can be a mix of equity share capital, loan capital, and debt, there is considerable debate as to whether or not the cost of capital increases as the gearing increases. Another approach to establishing the cost of capital is to compute a unique weighted average cost of capital for each organization, based on its particular mix of capital sources. The cost of capital is often used as a hurdle rate in discounted cash flow calculations.

Cost of capital/funds Is the rate of return that a business could earn if it so chose other investments with the equivalent risks. Also can be stated as *opportunity cost* of the funds used due to the investment decision.

Cost of carry The difference between a financial instrument's gross redemption yield and the cost of financing it.

Cost of debt Is interest rate times 1 minus the marginal tax rate (because interest is a tax deduction). An increase in the tax rate decreases the cost of debt.

Cost of equity (COE) Is the minimum rate of return a firm must offer owners to compensate for waiting for their returns, and for bearing risk. It is calculated: COS = Dividends per Share (for next year) / Current Market Value of Stock + Growth Rate of Dividends.

Cost of goods manufactured The total production cost of the finished goods transferred from the production facility of an organization during an accounting period. It is made up of the total expenditure for the period on direct materials, direct labour, and production overheads adjusted by the opening and closing stocks of raw materials and the work in progress at the beginning and end of the period. The cost of goods manufactured is often computed in the manufacturing account or in a cost of goods manufactured statement for a period.

Cost of goods sold (COGS) In a sales organization, the opening stock at the beginning of an accounting period plus the purchases for the period, less the closing stock at the end of the period. In a manufacturing organization the purchases for the period would be replaced by the production of finished goods for the period. The cost of goods sold figure is deducted from the sales revenue to obtain the gross profit for the period.

Cost of goods sold (COGS) Is a figure representing the cost of buying raw material and producing finished goods. Included are precise factors, i.e. material and factory labor; as well as others that are variable, such as factory overhead.

Cost of goods sold budget Decomposes, or breaks down, the components of a business's cost of goods sold (in some cases referred to as the cost of revenues). This budget breaks out each separate factor underlying the cost of goods sold for a business.

Cost of sales adjustment (COSA) An adjustment to the trading profit of an organization as a result of a holding gain on the cost of the stock sold. This occurs in current cost accounting.

Cost per thousand (CPM) Is advertising terminology used in buying media. CPM refers to the cost it takes to reach a thousand people within your target market.

Cost pool A collection of costs charged to products by the use of a common cost driver. Examples are material handling costs, based on the quantity or weight of material handled, and production planning, based on the number of jobs planned.

Cost prediction The estimation of future cost levels based on historical cost behaviour characteristics, using such statistical techniques as linear regression.

Cost principle Is the principle where a company is obliged to record its fixed assets at their actual purchase price or production cost.

Cost Recovery Method Method of revenue recognition which recognizes profits after costs are completely recovered. Generally used only when the total amount of collections is highly uncertain. In tax, the accounting method used to depreciate assets.

Cost reduction Is actions taken in the present designed to decrease costs in the present.

Cost sheet A form used in costing to collect together all the costs of a service, product, process, or cost centre, for presentation to the management or for use in the costing system.

Cost split Is the breakdown of the costs associated with producing a product, providing a service, ... The makeup is dependent upon what costs are being analyzed, e.g. in manufacturing a company would track the cost split between materials, direct labor, and production overhead.

Cost standard A predetermined level of cost expected to be incurred by a cost item used in the supply, production, or operation of a service, product, process, or cost centre. A cost standard is often applied to a performance standard in order to calculate standard overhead costs.

Cost synergy Is the savings in operating costs expected after two companies, who compliment each other's strengths, join.

Cost The expenditure on goods and services required to carry out the operations of an organization. There are a number of different ways of defining cost, the major ones being average cost, first-in-first-out cost, historical cost, last-in-first-out cost, and replacement cost.

Cost unit Is a functional cost unit which establishes standard cost per workload element of activity, based on calculated activity ratios converted to cost ratios.

Cost/income ratio Is total expenses divided by the sum of total income.

Cost-benefit analysis Is the method of measuring the benefits anticipated from a decision by determining the cost of the decision, then deciding whether the benefit outweighs the cost of that decision.

Costing methods The techniques and procedures used in cost accounting and management accounting to obtain the costs of services, products, processes, and cost centres to provide the information required to undertake performance measures, decision making, planning, and control. These techniques include absorption costing, marginal costing, and process costing.

Costing principles The rules that provide an acceptable treatment of the costs incurred by an organization, in cost accounting and management accounting. Examples include the principles used in valuing stocks and the principle that in establishing product costs an allowance for any normal loss must be included.

Cost-of-living lease Is a lease where yearly increases are tied to the cost of living index.

Cost-plus contract A contract entered into by a supplier in which the goods or services provided to the customer are charged at cost plus an agreed percentage markup. This method of pricing is very common if the cost of production of the commodity is unknown or in a contract for research work. However, because simple cost-plus contracts do not encourage suppliers to minimize their costs, there has been a move away from this type of contract in orders with private industry.

Cost-plus Is determining payment based on the actual cost of production or service provisioning plus an agreed-upon fee or rate of profit; for example, a cost-plus government contract.

Cost-plus pricing 1. The basic cost price charged in a cost-plus contract. 2. An approach to establishing the selling price of a product or service in a commercial organization, in which the total cost of the product or service is estimated and a percentage markup is added in order to obtain a profitable selling price. A variation to this approach is to estimate the costs to a particular stage, say the costs of production only, and then to add a percentage markup to cover both the other overheads (including administration, selling, and distribution costs) and the profit margin.

Cost-volume-profit analysis (CVPA) Examines the behavior of total revenue, total costs and profit as changes occur in the output level, selling price and variable costs per unit or fixed costs.

Count Enumerate some characteristic such as the number of items in inventory.

Counterbalance Is a compensating equivalent or to oppose and mitigate the effects of something by contrary actions.

Country risk The possibility that a foreign government will either prevent the fulfillment of a contract entered into by a company or take over control of the management of overseas subsidiaries.

Coupon 1. One of several dated slips attached to a bearer bond, which must be presented to the agents of the issuer or the company to obtain an interest payment or dividend. Eurobonds are issued in this form. 2. The rate of interest on a bond's par value, which the issuer promises to pay the holder of the bond.

Coupon bond Pays the holder of the bond a fixed interest payment (a coupon payment) every year until the bond reaches maturity. It is named a coupon payment, because a bondholder had to obtain their interest payment by clipping a coupon off of a bond and send it to the bond issuer, the bond issuer then sent the bondholder the payment. This process is no longer necessary for most coupon bonds. Examples of coupon bonds: Treasury bonds, Treasury notes and corporate bonds.

Coupon stripping A financial process in which the coupons are stripped off a bearer bond and then sold separately as a source of cash, with no capital repayment; the bond, bereft of its coupons, becomes a zero coupon bond and is also sold separately. The process represents a type of synergy, in which the sum of the values of the parts is worth more than the whole.

Covenant Is a clause in a contract that requires one party to do, or refrain from doing, certain things. It is usually a restriction on a borrower imposed by a lender.

Coverage of fixed charges Is computed by taking your net income, before taxes and fixed charges (debt repayment, long-term leases, preferred stock dividends etc.), and dividing by the amount of fixed charges. The resulting number shows your ability to meet your fixed obligations of all types — the higher the number, the better.

Coverage ratio Is a measure of a corporation's ability to meet a certain type of expense. In general, a high coverage ratio indicates a better ability to meet the expense in question. Examples: dividend coverage, fixed-charge coverage, interest coverage, preferred dividend coverage.

Coverdell Education Savings Account (Education IRA) A tax exempt trust exclusively for the purpose of paying qualified higher education costs of the trusts designated beneficiary.

Covering An action taken to reduce or eliminate the risk involved in having an open position in a financial, commodity, or currency market.

Cp Is an acronym with many possible meanings, e.g., Capacity Planning, Central Procurement, Change of Plan (insurance), Claims Procedure (insurance), Commercial Paper, Community Property, Consumer Products, Contingency Plan, Contract Price, Change Proposal, etc.

CPA 1. *Abbreviation for* certified public accountant. 2. *Abbreviation for* criticalpath analysis.

Cpff Is Cost Plus Fixed Fee.

Cpltd Is Current Portion of Long-Term Debt.

Cpt Is Cost Per Thousand.

Cr, In accounting, is an acronym for Credit Record.

Crat Is an acronym for Charitable Remainder Annuity Trust.

Creative accounting Is slang for the concept of maintaining accounts giving possibly illegal or dubious benefits to the entity for which the accounts are maintained.

Creative accounting Misleadingly optimistic, though not illegal, forms of accounting. This can occur because there are a number of accounting transactions that are not subject to regulations or the regulations are ambiguous. Companies sometimes make use of these ambiguities in order to present their financial results in the best light possible. In particular, companies often wish to demonstrate increasing accounting profits and a strong balance sheet. Examples of transactions in which creative accounting has taken place concern consignment stocks and sale and repurchase agreements. In these contexts, creative accounting will involve the separation of legal title from the risks and rewards of the activities, the linking of several transactions to make it difficult to determine the commercial effect of each transaction, or the inclusion in an agreement of options, which are likely to be exercised. Creative accounting is now less prevalent than it was in the 1980s. This is due both to the recession, which has led to a less tolerant view of financial statements, and to the activities of the Accounting Standards Board and the Urgent Issues Task Force, which have addressed some of the worst abuses.

Credit Agreement Arrangement in which one party borrows or takes possession in the present by promising to pay in the future.

Credit Balance Balance remaining after one of a series of bookkeeping entries. This amount represents a liability or income to the entity.

Credit card Is a card authorizing purchases on credit at a predetermined interest rate and payment conditions.

Credit card receipts Is sales revenue where payment has been made through the use of recognized/authorized credit cards versus cash or check receipts/payments.

Credit control Is policies and procedures aimed at controlling the granting of credit.

Credit Enhancements Using third-party guarantees such as a cosigner, the pledging of assets, an insurance company bond, or a letter of credit to provide additional security for a loan.

Credit entry An entry made on the right hand side of an account, representing an increase in a liability, revenue, or equity item or a decrease in an asset or expense. For example, when a supplier is paid there will be a credit to the bank as cash is spent and a corresponding debit to the creditors' control account.

Credit Entry on the right side of a double-entry bookkeeping system that represents the reduction of an asset or expense or the addition to a liability or revenue.

Credit line Is the maximum credit that a customer is allowed.

Credit memo Is a document used to issue a vendor credit.

Credit note A document expressing the indebtedness of the organization issuing it, usually to a customer. When goods are supplied to a customer an invoice is issued; if the customer returns all or part of the goods the invoice is wholly or partially cancelled by a credit note.

Credit notes Are issued to indicate a positive action within an account. Credit notes are issued for reasons such as overpayment, duplicate payment, damaged goods, returned merchandise, etc.

Credit rating An assessment of the creditworthiness of an individual or a firm, i.e. The extent to which they can safely be granted credit. Traditionally, banks have provided confidential trade references, but recently creditreference agencies (also known as rating agencies) have grown up, which gather information from a wide range of sources, including the county courts, bankruptcy proceedings, hire-purchase companies, and professional debt collectors. This information is then provided, for a fee, to interested parties. The consumer was given some protection from such activities in the Consumer Credit Act (1974), which allows an individual to obtain a copy of all the information held by such agencies relating to that individual, as well as the right to correct any discrepancies. There are also agencies that specialize in the corporate sector, giving details of a company's long-term and short-term debt. This can be extremely important to the price of the company's shares on the market, its ability to borrow, and its general standing in the business community.

Credit reporting agency (**credit reference agency; credit rating agency)** An organization that gathers data on the creditworthiness of businesses and individuals from various sources and supplies the data to interested parties in return for a fee.

Credit risk (**commercial credit risk)** The risk taken when a loan is made that the borrower will not be able to repay the principal or the interest. *Compare* political credit risk; transfer credit risk.

Credit sales Are merchandise or services sold on the promise to pay later.

Creditor days Is the number of days it takes the company to pay trade creditors. This ratio provides an indication of the amount of credit given to the business by its suppliers. The formula is trade creditors divided by sales multiplied by 365 days.

Creditor Party that loans money or other assets to another party.

Creditor-days ratio A ratio that gives an estimate of the average number of days' credit taken by an organization before the creditors are paid. It is calculated by the formula: • (trade creditors × 365)/annual purchases on credit.

Creditors Are the entities to which a debt is owed by another entity.

Creditors' buffer The fixed capital of a company, which cannot be reduced or distributed (except with special permission). The knowledge that there is this fixed capital base gives creditors the confidence to invest in the company in the short term (for example as suppliers) or in the longer term (for example as debenture holders).

Creditors control account Reflects the total amount owed to all the individual creditors. The balance of the creditors control account must equal the total of the creditors list, which represents the amounts owed by the individual creditors obtained from the individual balances in the various subsidiary ledger accounts for each creditor. This subsidiary ledger is known as the creditors' ledger.

Creditors' ledger (**purchases ledger**) A memorandum ledger account in which individual creditors' accounts are recorded; it is additional to the nominal ledger and forms part of the internal control system. In each individual creditor's account there is a record of the purchases made (credit), payments made (debit), discounts received (debit), and returns outwards (debit). The total sum of all the creditors' ledger accounts is periodically extracted and compared to the total on the creditors' ledger control account as part of the internal control system. The total of the individual creditors' ledger accounts should always equal the creditors' ledger control accounts; any differences that do occur must be investigated.

Creditors' ledger control account (**purchases ledger control account**) The nominal (or general) ledger control account recording the totals of the entries made to the individual creditors' ledgers from the purchases journal and the cash payments journal. The total on the creditors' ledger control account is periodically compared to the sum total of individual creditors' ledger accounts as part of the internal control system. The creditors' ledger control account should always equal the total of the individual creditors' ledger amounts; any differences that do occur must be investigated.

Creditors turnover = Average creditors / (Credit Sales / 365).

Creditors' voluntary liquidation (**creditors' voluntary winding-up)** The winding-up of a company by special resolution of the members when it is insolvent. A meeting of creditors must be held within 14 days of such a resolution and the creditors must be given seven days' notice of the meeting. Notices must also be posted in the *London Gazette* and two local newspapers. The creditors also have certain rights to information before the meeting. A liquidator may be appointed by the members before the meeting of creditors or at the meeting by the creditors. If two different liquidators are appointed, an application may be made to the court to resolve the matter.

Creditworthiness An assessment of a person's or a business's ability to pay for goods purchased or services received. Creditworthiness may be presented in the form of a credit rating from a credit reporting agency.

CREST The paperless share settlement system used by the London Stock Exchange. A Bank of England system, it replaced the earlier Taurus system, which failed to function. CREST began operation in 1995 and under the system shares are registered electronically with purchases and sales being settled instantaneously on the due date.

Critical accounting estimate Iwhen a company must make assumptions about matters that are " highly uncertain" when the company makes the accounting estimate and either of the following conditions would have a material effect on the company's financial condition, changes in financial condition or results of operations: 1. the company could reasonably have used a different estimate for the current period; or, 2.changes in the estimate are reasonably likely to occur from period to period in the future.

Critical event In critical-path analysis, an event - i.e. the start and/or completion of an activity - that lies on a critical path (*see*critical-path analysis).

Critical-path analysis (**CPA; critical-path method; CPM; network analysis; programme evaluation and review technique; PERT)** A decision-making technique to determine the minimum time needed to complete a project by establishing the time taken to complete the longest path (i.e. the critical path) through a network of activities. The network diagram is drawn up by arranging each activity sequentially, bounded by the events that record the start and/ or completion of each activity. Estimated activity times allow the earliest and latest start times for each event to be established, and from this information the critical path can be determined.

Cross rate An exchange rate between two currencies based upon the rate of each of them with a third currency, often the US dollar.

Cross-default clause The most onerous clause in a loan agreement, stating that if the borrower defaults on one loan, any other loans may become repayable. The cross-default clause is activated when another lender is in a position to call a default on its loan or an event occurs which, with the passage of time, is capable of giving any lender the right to call a default. *See* event of default.

Cross-footing Is the addition of columns of figures in different ways to check the accuracy of the totals, e.g. vertically and horizontally deriving the same total in a spreadsheet.

Cross-Purchase Plan A plan by which each stockholder or partner in a closely held business agrees to purchase the interest of a departing stockholder or partner. Usually funded by life insurance on the lives of the other stockholders or partners. (Note, cross-purchase agreements can become unwieldy when more than four owners are involved.)

Cross-sectional analysis The comparison of the accounting ratios of one company with those of another in order to assess the profitability, liquidity, and capital structure of the company.

Crown corporation Is a corporation that has been established by a nation's government.

Crown jewel option A form of poison pill in which a company, defending itself against an unwanted takeover bid, writes an option that would allow a partner or other friendly company to acquire one or more of its best businesses at an advantageous price if control of the defending company is lost to the unwelcome predator. The granting of such an option may not always be in the best interests of the shareholders of the defending company.

Crut Is an acronym for Charitable Remainder Unitrust.

Cumulative Effect of changing to a new accounting principle is the effect on retained earnings at the beginning of the current period. It is included in net income after extraordinary items. Only the direct effect (net of income tax effect) is considered.

Cumulative preference share A type of preference share that entitles the owner to receive any dividends not paid in previous years. Companies are not obliged to pay dividends on preference shares if there are insufficient earnings in any particular year. Cumulative preference shares guarantee the eventual payment of these dividends in arears before the payment of dividends on ordinary shares, provided that the company returns to profit in subsequent years.

Cumulative preferred stock Is preferred stock which gives holder a right to dividends if they have not been paid in a given year.

Currency 1. Any kind of money that is in circulation in an economy • 2. Anything that functions as a medium of exchange, including coins, banknotes, cheques, bills of exchange, promissory notes, etc. 3. (*legal tender*) The money in use in a particular country. *See*foreign exchange. *4.* The time that has to elapse before a bill of exchange matures.

Currency exposure The effect on the net worth of a business of changes in exchange rates in relation to its functional currency.

Current account In a national economy it is a category in the balance of payments account that includes all transactions that either contribute to national income or involve the spending of national income.

Current assets Are those assets of a company that are reasonably expected to be realized in cash, or sold, or consumed during the normal operating cycle of the business (usually one year). Such assets include cash, accounts receivable and money due usually within one year, short-term investments, US government bonds, inventories, and prepaid expenses.

Current cash debt ratio Measures ability to pay current liabilities in given year with cash derived from operating activities. Calculated using net cash from operating activities divided by average current liabilities.

Current cash equivalent (CCE) In continuously contemporary accounting, the measure of assets and liabilities.

Current cost 1. A cost calculated to take into consideration current circumstances of cost and performance levels.

2. The sum that would be required at current prices to purchase or manufacture an asset. This may be the replacement cost or the historical cost adjusted for inflation by means of an appropriate price index.

Current cost accounting Is a system of accounting which adjusts for changing pricing.

Current cost Is the cost which would be incurred for replacement of an asset.

Current debt to total debt Shows Current Liabilities as a percent of Total Debt. Smaller firms carry proportionally higher level of current debt to total debt than larger firms.

Current Liability Obligation whose liquidation is expected to require the use of existing resources classified as Current assets, or the creation of other current liabilities.

Current maturities-l/t/d Is that portion of long term obligations which is due within the next fiscal year.

Current portion of long-term debt Is only that portion of long-term obligations (payable in more than one year) which are owed and payable in the current year; e.g. the portion of a five-year loan or lease that is due in the current calendar/ fiscal year.

Current ratio, A comparison of current assets to current liabilities, is a commonly used measure of short-run solvency, i.e., the immediate ability of a firm to pay its current debts as they come due. Current Ratio is particularly important to a company thinking of borrowing money or getting credit from their suppliers. Potential creditors use this ratio to measure a company's liquidity or ability to pay off short-term debts. Though acceptable ratios may vary from industry to industry below 1.00 is not atypical for high quality companies with easy access to capital markets to finance unexpected cash requirements. Smaller companies, however, should have higher current ratios to meet unexpected cash requirements. The rule of thumb Current Ratio for small companies is 2:1, indicating the need for a level of safety in the ability to cover unforeseen cash needs from current assets. Current Ratio is best compared to the industry.

Current Value (1) Value of an asset at the present time as compared with the asset's historical cost.

(2) In finance, the amount determined by discounting the future revenue stream of an asset using compound interest principles. **Date of Auditors'/Accountants' Report** Last day the auditors perform fieldwork and the last day of responsibility relating to significant events subsequent to the financial statement date.

Current Yield The yield of a bond or similar instrument, taking into account only the current interest and the price paid. Computed by dividing the annual interest by the purchase price. ***Example—***You purchase a bond for $900 (with a face amount of $1,000) that pays $40 twice a year. The current yield is 8.89% ($80 divided by

$900). The current yield is not a true indication of the return on your investment if the purchase price is not the same as the face amount. In the example above, your total return would be greater because at maturity you'll receive $100 more in principal than you paid for the bond. The return will be affected not only by the face amount to be paid at maturity, but also by the time to maturity.

Current-asset investment An investment (e.g. Shares) intended to be held for less than one year.

Curtail Is to terminate or abbreviate before an intended or proper end or its full extent, e.g. the national product launch was curtailed due to lack of acceptance in the rural market place.

Custodian bank Is the bank that acts a custodian to a mutual fund. Does not manage anything, just holds the cash and securities and does the clerical.

Custodian Is an entity entrusted with guarding and keeping property or records.

Customs Are the authorities charged with collecting duty and controlling the entry of merchandise into a country.

Customs broker Is an individual or firm licensed to process entry and clear goods into the country for another.

Cutoff Designating a point of termination. An auditor uses tests of cutoff to obtain evidence that transactions for each year are included in the financial statements of the appropriate year.

Cut-off rate Is the predetermined maximum rate and/or minimum rate at which the subject is still acceptable, but where a rate above the proscribed higher or below the proscribed lower rate is no longer acceptable.

Cut-off yield, In securities, is the yield at which or below which the bids are accepted.

Cycle count Is a partial count of a single inventory location as opposed to a Complete Count, i.e., a complete count of a single inventory location. An organization should not wait to do a complete count; usually once a year. The best way to ensure that a minimum of 97% accuracy is maintained in inventory on an ongoing basis is to continually count your products. That is, count part of your inventory every day, and count each item several times per year. This process is called "cycle counting."

D

Dac, In accounting, is an acronym for Deferred Acquisition Costs.

Dairy queen accounting Is a figure of speech from the steel industry meaning that some people don't know if they are doing accounting for Dairy Queen or a steel mill.

Daisy chain The buying and selling of the same items several times over, for example stocks and shares. This may be done to 'inflate' trading activity (that is, the sale of the same items are being included in the sales figure more than once).

Damages Compensation, in monetary form, for a loss or injury, breach of contract, tort, or infringement of a right. Damages refers to the compensation awarded, as opposed to damage, which refers to the actual injury or loss suffered. The legal principle is that the award of damages is an attempt, as far as money can, to restore the position of the injured party to what it was before the event in question took place; i.e. the object is to provide restitution rather than profit. Damages are not assessed in an arbitrary fashion but are subject to various judicial guidelines. In general, damages capable of being quantified in monetary terms are known as liquidated damages. In particular, liquidated damages include instances in which a genuine pre-estimate can be given of the loss that will be caused to one party if a contract is broken by the other party. If the anticipated breach of contract occurs this will be the amount, no more and no less, that is recoverable for the breach. However, liquidated damages must be distinguished from penalties. Another form of liquidated damages is that expressly made recoverable under a statute. These may also be known as statutory damages if they involve a breach of statutory duty or are regulated or limited by statute. Unliquidated damages are those fixed by a court rather than those that have been estimated in advance.

General damages represents compensation for general damage, which is the kind of damage the law presumes to exist in any given situation. It is recoverable even without being specifically claimed and is awarded for the usual or probable consequences of the wrongful act complained of. For example, in an action for medical negligence, pain and suffering is presumed to exist, therefore if the action is successful, general damages would be awarded as compensation even though not specifically claimed or proved. Loss of earnings by the injured party, however, must be specifically claimed and proved, in which case they are known as **specific damages**.

Nominal and **contemptuous damages** are those awarded for trifling amounts. These are awarded either when the court is of the opinion that although the plaintiff's rights have been infringed no real loss has been suffered, or, although actual loss has resulted, the loss has been caused by the conduct of the plaintiff. The prospect of receiving only nominal or contemptuous damages prevents frivolous actions being brought. The award is usually accompanied by an order that each party bears their own legal costs. **Exemplary damages**, on the other hand, are punitive damages awarded not merely as a means of compensation but also to punish the party responsible for the loss or injury. This usually occurs when the party causing the damage has done so wilfully or has received financial gain from the wrongful conduct. Exemplary damages will be greater than the amount that

Would have been payable purely as compensation. **Prospective damages** are awarded to a plaintiff, not as compensation for any loss suffered at the time of a legal action but in respect of a loss it is reasonably anticipated will be suffered at some future time. Such an injury or loss may sometimes be considered to be too remote and therefore not recoverable.

Dandy note A delivery order issued by an exporter and countersigned by HM Customs and Excise, authorizing a bonded warehouse to release goods for export.

Dangling debit A practice in which companies wrote off goodwill to reserves and created a goodwill account, which was deducted from the total of shareholders' funds. This treatment is no longer possible under Financial Reporting Standard 10.

Data capture The insertion of information into a computerized system. For example, information about the sale of an item (the item sold, the sales price, and discount given, date and location of sale, etc.) Is taken into the accounting system either at the point of sale in a retail organization by an electronic till or by keyboarding into the system when the invoice is prepared. This information is then readily available and up-to-date; it can also be used to adjust stock levels.

Data event analysis Is the examination of something which happens within the business environment which the company needs to know about and which must be recorded in the company memory, that is, the company files. A data event may be externally or internally generated and may occur through some action being taken or merely as a result of the passage of time. The occurrence of data events recorded in some manner. Data event analysis determines what information must be recorded such that the event can be recalled and acted upon. It must also determine how that event became known to the company; that is, what triggered the company awareness of the event?

Data file A file on a computer system that contains data, contrasted with one that contains a program. A data file is usually subdivided into records and fields.

Data fixation, In behavioral accounting, is a compulsive preoccupation to focus only upon the numbers without looking beyond for the meaning behind the results themselves.

Data flow chart (**data flow diagram)** A chart that illustrates the way in which specified data is handled by a computer program. It concentrates on the functions performed rather than upon the detailed logic or programming instructions necessary for performing the functions. Its purpose is to specify the data, to show where it is used or changed, where it is stored, and which reports use it.

Data processing (**DP**) The class of computing operations that manipulate large quantities of information. In business, these operations include bookkeeping, printing invoices and mail shots, payroll calculations, and general record keeping. Data processing forms a major use of computers in business, and many firms have full-time data-processing departments.

Data protection Safeguards relating to personal data, i.e. Personal information about individuals that is stored on a computer. The principles of data protection, the responsibilities of data users, and the rights of data subjects are governed by the Data Protection Act (1984).

The principles of data protection include the following:

(1) The information to be contained in personal data shall be obtained, and personal data shall be processed, fairly and lawfully.

(2) Personal data shall be held only for specified and lawful purposes and shall not be used or disclosed in any manner incompatible with those purposes.

(3) Personal data held for any purpose shall be relevant to that purpose.

(4) Personal data shall be accurate and, where necessary, kept up to date.

(5) Personal data held for any purpose shall not be kept longer than necessary for that purpose.

(6) Appropriate security measures shall be taken against unauthorized access to, or alteration, disclosure, or destruction of personal data and against accidental loss or destruction of personal data.

Data users must register their activities with the **Data Protection Registrar** by means of a registration form obtained from a post office. This requires the data user to give: a description of the personal data it holds and the purposes for which the data is held; a description of the sources from which it intends or may wish to obtain the data or the information to be contained in the data; a description of any persons to whom it intends or may wish to disclose the data; the names or a description of any countries or territories outside to which it intends or may wish directly or indirectly to transfer from data subjects for access to the data. A data user who fails to register is guilty of the offence of failing to register.

An individual is entitled to be informed by any data user whether that data user holds personal data of which the individual is the subject. The data subject is also entitled to obtain a printout from a registered data user of any personal data held and to demand that any inaccurate or misleading information is corrected or erased. If a court is satisfied on the application of a data subject that personal data held by a data user concerning the data subject is inaccurate it may order the rectification or erasure of the data. Additionally it may order the rectification or erasure of any data held by the data user that contains an expression of opinion that appears to the court to be based on the inaccurate data.

Data The information that is processed, stored, or produced by a computer.

Database An organized collection of information held on a computer. A special computer program, called a database management system (DBMS), is used to organize the information held in the database according to a specified schema, to update the information, and to help users find the information they seek. There are two kinds of DBMS: simple DBMS, which are the electronic equivalents of a card index; and programmable DBMS, which provide a programming language that allows the user to analyse the data held in the database. On large computer systems, other programs can generally communicate with the DBMS and use its facilities. The term **data bank** is used for a collection of databases.

Date draft Is a payment option draft that matures in a specified number of days after the date issued.

Date of record Is the date which determines which shareholders receive dividends.

Dawn raid An attempt by one company or investor to acquire a significant holding in the equity of another company by instructing brokers to buy all the shares available in that company as soon as the stock exchange opens, usually before the target company knows that it is, in fact, a target. The dawn raid may provide a significant stake from which to launch a takeover bid. The conduct of dawn raids is now restricted by the City Code on Takeovers and Mergers.

Day book A specialized journal or book of prime entry recording specific transactions. For example, the sales daybook records invoices for sales, the purchase day book records invoices received from suppliers. Day-book entries are transferred to memorandum ledgers, such as the debtors' ledger and the creditors' ledger, while totals of entries are transferred to the nominal ledger control accounts, such as the debtors' ledger control account and the creditors' ledger control account.

Days cash on hand Is calculated: Cash/([operating expense - depreciation expense]/365).

Days' sales in receivables The amount of receivables (i.e. Debtors) expressed in days of sales. For example, if £5000 worth of sales are made each day and the total debtors' balance outstanding is £500,000, this represents 100 (£500,000/£5000) days' sales.

Days sales outstanding (DS0) Is a financial indicator that shows both the age, in terms of days, of a company's accounts receivable and the average time it takes to turn the receivables into cash. It is compared to company and industry averages, as well as company selling terms (e.g., Net 30) for determination of acceptability by the company. DSO is calculated: DSO = (Total Receivables/Total Credit Sales) x Number of Days. Note: Only credit sales are to be used. Cash sales are excluded.

Days' inventory Shows the average length of time items are in inventory, i.e., how many days a business could continue selling using only its existing inventory. The goal, in most cases, is to demonstrate efficiency through having a high turnover rate and therefore a low days' inventory. However, realize that this ratio can be unfavorable if either too high or too low. A company must balance the cost of carrying inventory with its unit and acquisition costs. The cost of carrying inventory can be 25% to 35%. These costs include warehousing, material handling, taxes, insurance, depreciation, interest and obsolescence.

DBA (doing business as) Is a legal entity (sole proprietorship, partnership, corporation) conducting business under any chosen name for which a business license has been issued.

Dcaa Is the Defense Contract Audit Agency.

Dearing Report The report of a committee to examine the setting of accountancy standards, established in the UK under the chairmanship of Sir Ronald Dearing. The report, 'The Making of Accounting Standards', was published in 1988; this led to the replacement of the Accounting Standards Committee by the Accounting Standards Board and to the establishment of the Financial Reporting Council, the Review Panel, and the Urgent Issues Task Force.

Death Benefit Amounts received under a life insurance contract and paid by reason of the death of the insured. (Although most death benefits are paid at termination of life, certain plans now pay accelerated death benefits while the insured is still alive, i.e.: an AIDS patient might possibly receive accelerated death benefit)

Death duty (estate duty) A tax levied on the estate of a person who has died; the amount of the tax is calculated by assessing the estate of the deceased person in accordance with the appropriate tax regulations. In the estate duty was replaced in 1975 by capital transfer tax, which in turn was replaced by inheritance tax in 1986.

Debenture Is a corporate IOU that is not backed by the company's assets (unsecured) and is therefore somewhat riskier than a bond.

Debit Balance Balance remaining after one or a series of bookkeeping entries. This amount represents an asset or an expense of the entity.

Debit card Is a banking card enhanced with automated teller machine (ATM) and point-of-sale (POS) features so that it can be used at merchant locations. A debit card is linked to an individual's checking account, allowing funds to be withdrawn at the ATM and point-of-sale without writing a check. Each financial institution creates an identity for its debit card to customize the product and differentiate it in the market. Debit cards can also be called deposit access cards.

Debit Is a record of an indebtedness; specifically : an entry on the left-hand side of an account constituting an addition to an expense or asset account or a deduction from a revenue, net worth, or liability account.

debit memorandum Can be either a) a form or document given by the bank to a depositor to notify that the depositor's balance is being decreased due to some event other than the payment of depositor originated check, e.g. bank service charges; or b) a form of document used by a seller to notify a buyer that the seller is debiting (increasing) the amount of the buyer's accounts payable due to errors or other factors requiring adjustments.

Debit notes Are issued to indicate a short payment.

Debt collection agency An organization that specializes in collecting the outstanding debts of its clients, charging a commission for doing so.

Debt covenant Is one of many terms used to describe rules governing the loans that a company has outstanding. Other related phrases would be "loan terms" "credit agreement," "loan agreement."

Debt coverage ratio Is the ratio between the net income of an investment and the amount of debt service of the investment: expressed as (NOI / DS = DCR), i.e. it is the relationship of net operating income divided by annual debt service.

Debt financing Is raising money through selling bonds, notes, or mortgages or borrowing directly from financial institutions. You must repay borrowed money in full, usually in installments, with interest. A lender incurs risk and charges a corresponding rate of interest based on that risk. The lender usually assesses a variety of factors such as the strength of your business plan, management capabilities, financing, and your past personal credit history, to evaluate your company's chances of success.

Debt General name for money, notes, BONDS, goods or services which represent amounts owed.

Debt instrument Is a written promise to repay a debt. Examples: notes, bills, bonds, CDs, GICs, commercial paper, and banker's acceptances.

Debt ratio Measures the percent of total funds provided by creditors. Debt includes both current liabilities and long-term debt. Creditors prefer low debt ratios because the lower the ratio, the greater the cushion against creditor's losses in liquidation. Owners may seek high debt ratios, either to magnify earnings or because selling new stock would mean giving up control. Owners want control while "using someone else's money." Debt Ratio is best compared to industry data to determine if a company is possibly over or under leveraged. The right level of debt for a business depends on many factors. Some advantages of higher debt levels are:

The deductibility of interest from business expenses can provide tax advantages.

Returns on equity can be higher.

Debt can provide a suitable source of capital to start or expand a business.

Debt restructuring The adjustment of a debt, either as a result of legal action or by agreement between the interested parties, to give the debtor a more feasible arrangement with the creditors for meeting the financial obligations. The management may also voluntarily restructure debt, for example by replacing long-term debt with short-term debt.

Debt service coverage Is the ratio of cash flow available to pay for debt to the total amount of debt payments to be made (interest and principal payments).

Debt Service Fund Fund whose principal or interest is set aside and accumulated to retire debt.

Debt Service The cash required to pay the interest and principal due (usually during one year) on outstanding debt.

Debt to equity Measures the risk of the firm's capital structure in terms of amounts of capital contributed by creditors and that contributed by owners. It expresses the protection provided by owners for the creditors. In addition, low Debt/ Equity ratio implies ability to borrow. While using debt implies risk (required interest payments must be paid), it also introduces the potential for increased benefits to the firm's owners. When debt is used successfully (operating earnings exceeding interest charges) the returns to shareholders are magnified through financial leverage. Depending on the industry, different ratios are acceptable. The company should be compared to the industry, but, generally, a 3:1 ratio is a general benchmark. Should a company have debt-to-equity ratio that exceeds this number; it will be a major impediment to obtaining additional financing. If the ratio is suspect and you find the company's working capital, and current / quick ratios drastically low, this is a sign of *serious* financial weakness.

Debt to total assets ratio Measures the percentage of assets financed by all terms of debt, includes both current and long term debt.

Debt-equity ratio A ratio used to examine the financial structure or gearing of a business. The long-term debt, normally including preference shares, of a business is expressed as a percentage of its equity. A business may have entered into an agreement with a bank that it will maintain a certain debt-equity ratio; if it breaches this agreement the loan may have to be repaid. A highly geared company is one in which the debt is higher than the equity, compared to companies in a similar industry. A highly geared company offers higher returns to shareholders when it is performing well but should be regarded as a speculative investment. The debt-equity ratio is now sometimes expressed as the ratio of the debt to the sum of the debt and the equity.

Debtor collection period (average collection period) The period, on average, that a business takes to collect the money owed to it by its trade debtors. If a company gives one month's credit then, on average, it should collect its debts within 45 days. The debtor collection period ratio is calculated by dividing the amount owed by trade debtors by the annual sales on credit and multiplying by 365. For example if debtors are £25,000 and sales are £200,000, the debtors collection period ratio will be:

(£25,000 × 365)/£200,000 = 46 days approximately.

Debtor days Is a ratio used to work out how many days on average it takes a company to get paid for what it sells. It is calculated by dividing the figure for trade debtors shown in its accounts by its sales, and then multiplying by 365.

Debtor Party owing money or other assets to a creditor.

Debtors control account Reflects the total amount owed by the all the individual debtors. The balance of the debtors control account must equal the total of the debtors list, which represents the amounts owed by the individual debtors obtained from the individual balances in the various subsidiary ledger accounts for each debtor. This subsidiary ledger is known as the debtors' ledger.

Debtors' ledger (sales ledger; sold ledger) A memorandum ledger account in which individual debtors' accounts are recorded. Each account records sales made (debit), payments received (credit), discounts given (credit), and returns inwards (credit). The total sum of all individual debtors' ledgers is periodically extracted and compared to the total on the debtors' ledger control account as part of the internal control system. The total of the individual debtors' ledger accounts should always equal the debtors' ledger control account.

Debtors' ledger control account (sales ledger control account) A nominal ledger (or general ledger) control account that records the totals of entries made to the individual debtors' ledgers from the sales day book and the cash receipts journal. The total on the debtors' ledger control account is periodically compared with the sum total of individual debtors' ledger accounts as part of the internal control system. The debtors' ledger control account should always equal the total of the individual debtors' ledger amounts.

Debt-To-Equity Ratio Total liabilities divided by total shareholders' equity. This is a measure of the cushion available to creditors should the firm be forced to liquidate. The ratio is sometimes calculated by dividing total long-term debt by shareholders' equity.

Debture trust deed An agreement specifying the rights of debenture holders, for example, the power to appoint a receiver in specified circumstances of default by a company.

Debug To identify and correct faults in a computer software program or hardware device.

Decentralization The delegation of decision-making responsibilities to the subunits of an organization. The advantages claimed for decentralization are that local managers are more aware of immediate problems, are better motivated, and have greater control over local circumstances. The disadvantages of decentralization are the possibility of wasteful competition between subunits, the duplication of certain services and functions, and the loss of central control and access to information.

Decision making The act of deciding between two or more alternative courses of action. In the running of a business, accounting information and techniques are used to facilitate decision making, especially by the provision of decision models, such as discounted cash flow, critical-path analysis, marginal costing, and breakeven analysis.

Decision model A model that simulates the elements or variables inherent in a business decision, together with their relationships to each other and the constraints under which they operate; the purpose of the model is to enable a solution to be arrived at in keeping with the objectives of the organization. For example, a linear programming decision model may arrive at a particular production mix that, having regard to the constraints that exist, either minimizes costs or maximizes the contribution. Other decision models include decision trees, discounted cash flow, breakeven analysis, and budgets.

Decision support system (DSS) A computer system specifically designed to assist managers in making unstructured decisions, i.e. The nature of the problem requiring a decision is not known in advance. A language subsystem will need to be included in the DSS to allow managers to communicate easily with the system. A problem processing subsystem, such as a spreadsheet, will be required. The system should have a store of internal data and be able to access external data.

Decision table A table used to aid decision making. The table shows the problems requiring actions to be considered and estimated probabilities of made to the individual debtors' ledgers from the sales day book and the cash receipts journal. The total on the debtors' ledger control account is periodically compared with the sum total of individual debtors' ledger accounts as part of the internal control system. The debtors' ledger control account should always equal the total of the individual debtors' ledger amounts.

Decision theory Is a body of knowledge and related analytical techniques of different degrees of formality designed to help a decision maker choose among a set of alternatives in light of their possible consequences.

Declining-balance depreciation method Is an accelerated depreciation method in which an asset's book value is multiplied by a constant depreciation rate (such as double the straight-line percentage, in the case of double-declining-balance.). This depreciation method is allowed by the U.S. tax code and gives a larger depreciation in the early years of an asset. Unlike the straight line and the sum of the digits methods, both of which use the original basis to calculate the depreciation each year, the double declining balance uses a fixed percentage of the prior year's basis to calculate depreciation. The percentage rate is 2/N where N is the life of the asset. With this method, the basis never becomes zero. Consequently, it is standard practice to switch to another depreciation method as the basis decreases. Usually the taxpayer will convert to the straight line method when the annual depreciation from the declining balance becomes less than the straight line.

Dedicated transactions, In securities, is a list all the transactions (including cash) for each portfolio together with any relevant fees and notes. And, not only can one monitor profit/loss but you can also chart the historical valuation of a portfolio, monitor the annualized rate of return, compare portfolio performance against indices or sectors and chart the performance of different constituents of a portfolio on a single chart.

Deductive accounting theory (Mathematical method) Assumes that optimal accounting standards and reporting rules can be derived by deduction much in the way that Pythagoras derived the rule for measuring the hypotenuse of a triangle based upon square root of the summed squares of the other two sides (assuming one angle is a perfect 90-degree angle).

Deed In Lieu Of Foreclosure The delivery of an asset's title to the lender when the loan is in default. The approach may benefit both parties by avoiding the expenses associated with foreclosure and the stigma of foreclosure. CAUTION. For tax purposes, the transaction is the same as a sale.

Deep Discount Bond A bond where the market price is less than 20% or so of its face value. Like a zero coupon bond, the market price of a deep discount bond will rise faster when interest rates fall and drop faster when interest rates rise than a bond that is selling close to its face value.

Deep In, Deep Out Of The Money A call option whose exercise price is well below the market price of the underlying stock (deep in the money) or well above the market price (deep out of the money). Thus, the premium associated with buying a deep-in-the-money call option is high.

Defalcation To misuse or embezzle funds.

Default Failure to meet any financial obligation. Default triggers a creditor's rights and remedies identified in the agreement and under the law.

Default, In finance, default is what occurs when a party is unwilling or unable to pay their debt obligations. This can occur with all debt obligations including bonds, debentures, mortgages, loans, and notes. Default can also occur with sovereign bonds, that is, governments can default on their payments to creditors. In corporate finance, a default is typically a prelude to bankruptcy. With most mortgages and loans the total amount owing becomes immediately payable on the first instance of a default of payment.

Defeasance clause Is the clause in a mortgage that permits the mortgagor to redeem his or her property upon the payment of the obligations to the mortgagee.

Defeasance Is the release of a debtor from the primary obligation for a debt. A legal defeasance could take place in absolute terms, i.e., the debt could cease to exist for anyone (by being forgiven or set aside), or the creditor could formally recognize that another party has taken over the primary obligation for the debt.

Deferred annuity Is an annuity in which the income payments/withdrawals begin at some future date

Deferred asset Is an amount owed to an entity that is not expected to be received by that entity within one year from the date of the balance sheet.

Deferred Charge Cost incurred for subsequent periods which are reflected as assets.

Deferred development costs Is the non-recognition of costs of development until such until some condition(s) is satisfied.

Deferred Income Income received but not earned until all events have occurred. Deferred income is reflected as a liability.

Deferred income Is that income for which the cash has been collected by the company, but have yet to be "earned". For example, a customer pays their annual software license upfront on the 1st Jan. As the company financial year-end is 31st May, the company would only be able to record five months of the income as turnover in the profit and loss account. The rest would be accrued in the balance sheet as a "deferred" creditor.

Deferred Income Taxes Assets or Liabilities that arise from timing or measurement differences between tax and accounting principles.

Deferred Interest Bond A bond where interest payments are not made currently, but at a later date. Similar to a zero coupon bond which pays 'interest' and principal at maturity. The interest, in effect, is compounded and paid at maturity. Market prices for such bonds are much more volatile than bonds which pay interest currently.

Deferred payment credit Is a type of a letter of credit where payment is made at a specified interval after collection papers are submitted.

Deferred tax assets Have an effect of decreasing future income tax payments, which indicates that they are prepaid income taxes and meet definition of assets. Whereas deferred tax liabilities have an effect of increasing future year's income tax payments, which indicates that they are accrued income taxes and meet definition of liabilities.

Deferred tax liabilities Have an effect of increasing future year's income tax payments, which indicates that they are accrued income taxes and meet definition of liabilities. Whereas deferred tax assets have an effect of decreasing future income tax payments, which indicates that they are prepaid income taxes and meet definition of assets.

Deferred, In accounting, is any account where the asset or liability is not realized until a future date, e.g. annuities, charges, taxes, income, etc. The deferred item may be carried, dependent on type of deferral, as either an asset or liability.

Deficiency An internal control shortcoming or opportunity to strengthen internal controls.

Deficiency in Design This exists when a control necessary to meet the control objective is missing or an existing control is not properly designed so that even if the control operates as designed, the control objective is not always met.

Deficiency in Operation This exists when a properly designed control does not operate as designed, or when the person performing the control does not possess the necessary authority or qualifications to perform the control effectively.

Deficit budget Is where the estimates of expenses are greater than estimates of revenue.

Deficit Is a debit balance in the Retained Earnings account resulting from accumulated losses.

Deficit spending Is an excess of government expenditures over government revenue, resulting in a shortfall that must be financed through borrowing.

Defined contribution Is a pension design that defines the amount of contributions, usually a percentage of salary. The benefits payable at retirement depend on factors such as future investment return and annuity rate at retirement. If a plan is registered for tax purposes, the maximum contribution amount (usually a percentage of earnings or income up to a dollar limit) is defined by tax regulations.

Deflation Is a contraction of economic activity resulting in a decline of prices.

Defunct company A company that has been wound up and has therefore ceased to exist.

Delinquency ratio Is the ratio of past-due loans to total number of loans serviced.

Delivery lead time The delay between the time at which an order is placed to replenish an item of stock and the receipt of the item ordered.

Delphi technique A technique for predicting a future event or outcome, in which a group of experts are asked to make their forecasts, initially independently, and subsequently by consensus in order to discard any extreme views. In some circumstances subjective probabilities can be assigned to the possible future outcomes in order to arrive at a conclusion.

Delta, In securities trading, is the relationship between an option price and the underlying futures contract or stock price. In general usage, it is the difference between two empirical data points, e.g. the *delta* between 4 and 6 is 2.

Demand deposit Is a bank deposit f rom which withdrawals may be made without notice.

Demand Deposit The technical name for a checking account or any other type of account where the funds can be withdrawn without prior notice.

Demand draft, Also known as sight draft, is a draft payable on demand from the date of issue, e.g. a payroll check.

Demand Loan Loan repayable on demand. Also known as a Call Loan.

Demand note Is a note payable on demand from the person who is owed the money.

Demerger A business strategy in which a large company or group of companies splits up so that its activities are carried on by two or more independent companies. Alternatively, subsidiaries of a group are sold off. Demerging was popular in the late 1980s when large conglomerates became unfashionable.

Deminimus, Root is 'De minimis non curat lex' (Latin), a common law principle whereby judges will not sit in judgement of extremely minor transgressions of the law. It has been restated as "the law does not concern itself with trifles". It is commonly used to include a test of anyone judging conformance to accounting principles, regulations or rules.

Demographics Are the attributes such as income, age, and occupation that best describe your target market.

Demutualization Refers to the demutualizing of an insurance company. The proceeds from such an event are normally distributed to the policyholders in the form of either cash, shares, or a combination thereof in the surviving entity.

Department A discrete section of an organization under the responsibility of a department manager; separate costs and, where appropriate, income are allocated or apportioned to the department for the purposes of costing, performance appraisal, and control.

Departmental accounting The process of providing accounting information analysed by department, so that each department of an organization can be treated as a separate cost centre, revenue centre, or profit centre (as appropriate) and the department manager can have access to the department's performance.

Departmental budget A budget for a particular department of an organization for a budget period. Ideally, it will be produced either by, or in consultation with, the department manager concerned in accordance with the procedures set out in the budget manual; coordinated with other budgets on which it may have an impact; and agreed with the budget committee for integration into the master budget, which is submitted to the board of directors for approval.

Dependent Care Expenses Qualified child care expenses will allow a taxpayer this computed credit against tax. The amounts can be found on the individual forms as the limitations and computation may change each tax year.

Dependent, Generally, is a person who relies on another person for support (especially financial support); in U.S. tax law, it means a dependent as defined in tax code Section 152 which excludes those individuals who do not qualify for a dependent deduction on the employee's tax return including domestic partners and parents.

Depletion accounting A method of calculating the depreciation of a wasting asset, based on the rate at which it is being used. For example, a coal mine could be depreciated on the basis of the rate at which coal is extracted from it.

Depletion Is the process of cost allocation that assigns the original cost of a natural resource to the periods benefited. For example: a mining company purchases mineral rights to a deposit for $5 million for a period of ten years. The cost of the natural resource, $5 million, will be depleted over the ten years of the benefit; i.e., it is the physical exhaustion of a natural resource (e.g., timber, oil and coal).

Deposit Can mean a variety of things: a. a payment given as a guarantee that an obligation will be met; b. the act of putting money into a bank account; c. a partial payment made at the time of purchase with the balance to be paid later; or, d. money given as security for an article acquired for temporary use.

Deposit Method Related to the sales of real estate, under this method the seller does not recognize any profits, does not record a note Receivable, and continues to reflect the property and related debt in the seller's financial statements, recording the buyer's initial investment and subsequent payments as a deposit.

Depository account Are those accounts where assets; e.g. cash or securities; are placed on deposit in favor of the depositor.

Depository receipt A certificate issued by a depository, bank, or other company stating what has been deposited for safekeeping.

Taxable person ceases to make taxable supplies, deregistration is compulsory and notification is required within 30 days. Failure to give the required notification may result in a penalty being charged.

Deposits in transit Is deposits made to a bank account that have not been credited to the bank statement.

Depreciated historical cost (DHC) Is he method of valuation of certain assets at the actual cost of their acquisition and subsequent enhancement less a reduction for depreciation to date.

Depreciation allocation Is the allocation of the cost of capital expenditures so that revenue is matched with expenses for items that will last more than one year (land is not depreciable). The methodolgy is to allocate plant and equipment cost to expense through the use of accelerated, straight line and units of production amortization methods; as well as the disposal of assets; and, repairs and betterments to assets.

Depreciation convention Is utilized to determine how much depreciation to charge the first year when an item is bought part way through the year. Three different conventions are used: 1. Half year convention - All property placed in service is considered to be placed in service half way through the year. During the first year, half of the "normal" depreciation is taken. At the end of the depreciation period, the other half of the "normal" depreciation is taken; 2. Mid-quarter convention - If the amount of depreciation claimed on new items during the last 3 months of a year exceeds 40% of the total depreciation claimed during the year, then the mid-quarter convention is used. The amount of depreciation of each item is figured for one year then multiplied by 87.5% if was placed in service during Jan. - March, 62.5% if it was placed in service during April - June, 37.5% for items placed in service during July-Sept, and 12.5% for items placed in service during Oct. - Dec.; or, 3. Mid-month convention - All property is considered to be placed in service during the midpoint of the month. This requires some calculations.

Depreciation Is the amount of expense charged against earnings by a company to write off the cost of a plant or machine over its useful live, giving consideration to wear and tear, obsolescence, and salvage value. If the expense is assumed to be incurred in equal amounts in each business period over the life of the asset, the depreciation method used is straight line (SL). If the expense is assumed to be incurred in decreasing amounts in each business period over the life of the asset, the method used is said to be accelerated. Two commonly used variations of the accelerated method of depreciating an asset are the sum-of-years digits (SYD) and the double-declining balance (DDB) methods. Frequently, accelerated depreciation is chosen for a business' tax expense but straight line is chosen for its financial reporting purposes.

Depreciation recapture Is a provision contained in the Internal Revenue Code that makes excess depreciation taken on real property subject to income tax upon the sale or disposition of the property.

Depreciation reserve In the process of allocating the cost of a fixed asset over its effective service life in a systematic and rational manner (depreciation schedule), the value of each depreciable asset is reduced by its depreciation amount. To match this, the depreciation amounts are added to a "depreciation reserve" in the long-term liabilities.

Depreciation reversal Is the reversal of a depreciaton amount in the depreciation reserve account.

Depreciation schedule Is the statement, over time, as to the schedule (timing and amounts) of depreciation of any long-term asset. A depreciation schedule is used for any type of depreciation applicable, i.e., either straight line or accelerated depreciation.

Deregulation The removal of controls imposed by governments on the operation of markets. Many economists and politicians believe that during this century governments have imposed controls over markets that have little or no justification in economic theory; some have even been economically harmful. For example, in the post-war era, as a result of the Bretton Woods agreements, many governments imposed controls on the flow of capital between countries. In the belief that this was harmful to economic growth, many governments have recently eliminated these restrictions. However, most economists still argue that certain markets should be regulated, particularly if a monopoly is involved.

Derivative action A legal action brought by a shareholder on behalf of a company, when the company cannot itself decide to sue. A company will usually sue in its own name but if those against whom it has a cause of action are in control of the company (i.e. directors or majority shareholders) a shareholder may bring a derivative action. The company will appear as defendant so that it will be bound by, and able to benefit from, the decision. The need to bring such an action must be proved to the court before it can proceed.

Derivative contract Is, generally, a financial contract the value of which is derived from the values of one or more underlying assets, reference rates, or indices of asset values, or credit-related events. Derivative contracts include interest rate, foreign exchange rate, equity, precious metals, commodity, and credit contracts, and any other instruments that pose similar risks.

Derivative Is a transaction or contract whose value depends on or, as the name implies, derives from the value of underlying assets such as stock, bonds, mortgages, market indices, or foreign currencies. One party with exposure to unwanted risk can pass some or all of the risk to a second party. The first party can assume a different risk from a second party, pay the second party to assume the risk, or, as is often the case, create a combination. Derivatives are normally used to control exposure or risk.

Derivative liabilities Are financial instruments under contracts that have one or more underlying and one or more notional amounts.

Designated Is something selected or named for a duty, e.g., designated receipts.

Designated receipts Is that revenue which is identified for a specific purpose.

Desktop evaluation The process of deciding whether a computer system or program can perform a particular task by testing it in realistic, or desktop, circumstances. This contrasts with evaluation on a theoretical basis, using technical data supplied by the manufacturer.

Desktop publishing (DTP) An application of computers that enables small companies and individuals to produce reports, advertising, magazines, etc., to near-typeset quality. A typical system comprises a microcomputer, using DTP software, and a laser printer. The capabilities of the software vary with price, although all offer basic page formatting and the ability to use several founts. More elaborate systems enable graphics to be incorporated into the text and simulate many of the functions of professional typesetting systems. A common feature is the ability to preview each page on the computer's screen before it is printed; many DTP systems therefore require a computer with a superior graphics capability. The laser printer is usually capable of printing text and graphics at a resolution of 300 dots per inch, although some programs are capable also of driving typesetting machines, which use resolutions of over 1000 dots per inch.

Detection Risk Risk that the auditor will not detect a material misstatement.

Detective Controls These have the objective of detecting errors or fraud that have already occurred that could result in a misstatement of the financial statements.

Devaluation, In economics, is the lowering in value of one currency in relation to other currencies.

Development gains tax A former tax charged on the sale of land subject to development potential. It was abolished in 1976 when the development land tax replaced it. This was abolished in 1985.

Development Normally refers to a) improving a product or producing new types of products; or b) in real estate, process of placing improvements on or to a parcel of land.

Deviation Departure from prescribed internal control. Often expressed as a rate at which the departure occurs.

Devolution Is the delegation of authority from higher to lower levels.

Devolve Is to pass on or delegate to another, e.g. a devolved letter of credit.

Devolved budgeting Follows from devolving managerial responsibility, and assumes that those who are closest to the point of delivery of product/service and other activities will normally be in the best position to make informed choices between alternative courses of action. For devolved budgeting to be fully effective, the budget holder should maintain proper control of the costs being charged to him or her and be accountable for performance against budget. The budget structures are being scrutinized continuously, the aim being to establish what further scope exists for useful devolution of authority and responsibility

Diary panel A group of shops and shoppers who keep a regular record of all purchases or purchases of selected products, for the purpose of marketing research.

Dies non (Latin: short for *dies non juridicus*, a non-juridical day) A day on which no legal business can be transacted; a non-business day.

Different costs for different purposes The principle in management accounting that the management of an organization is likely to need different information, and thus different costs, for the various activities it carries out, especially when making decisions. For example, when calculating the price of a product on a cost-plus basis, management would need to ensure that all costs, both fixed and variable, are charged to the product. On the other hand, in determining whether or not additional units of a product should be produced, only the variable costs would be relevant to that decision.

Differential analysis An assessment of the impact on costs and revenues of specific management decisions.

Differential cost A cost that changes as a result of making a specific decision. In decision making, management is often concerned to know the differential costs as they represent part of the impact on profit of a particular decision. For example, a decision to increase production may in the short term cause total variable costs to increase, in which case the variable costs are the differential costs. In the longer term, an increase in production may only be achieved by an increase in both fixed and variable costs, in which case both fixed and variable costs are differential costs. In every case, differential costs must be compared with differential revenue to determine whether a decision is profitable.

Differential pricing A method of pricing a product in which the same product is supplied to different customers, or different market segments, at different prices. This approach is based on the principle that to achieve maximum market penetration the price charged should be what a particular market will bear. For example, the prices charged for similar motor vehicles in the market have been higher than those charged in the rest of Europe.

Differential revenue (differential income) Income that changes in total as the result of a specific decision. *Compare* differential cost.

Differentiated marketing Marketing in which provision is made to meet the special needs of consumers. For example, weight watchers require diet drinks and left-handed people require left-handed scissors.

Diffusion of innovation The process by which the sale of new products and services spreads among customers. Initially, only those with confidence in the new product or who like taking risks will try it out. Once the innovators have accepted the product, a larger group of early adopters will come into the market. These opinion leaders will in turn bring about a wider acceptance by consumers. The diffusion process can be speeded up by making new products more attractive, for example by giving away free samples or by special introductory prices.

Dilapidations Disrepair of leasehold premises. The landlord may be liable to repair certain parts of domestic premises (e.g. The structure and exterior, and the sanitary appliances) under the Landlord and Tenant Act (1985) if the lease is for less than seven years. Otherwise, the lease will usually contain a covenant by either the landlord or the tenant obliging them to keep the premises in repair. Under the Landlord and Tenant Act (1985), a landlord cannot enforce a repairing covenant against a tenant by ending the lease prematurely except by first serving a notice on the tenant specifying the disrepair and giving time for the repairs to be carried out. If there is no covenant in the lease, the tenant is under a common-law duty not to damage the premises and must keep them from falling down.

Diluted earnings per share Are earnings per share, including common stock, preferred stock, unexercised stock options, and some convertible debt. Diluted earnings per share are usually a more accurate reflection of the company's real earning power.

Dilution Is the decrease, weakening, or loss in a financial statement related item. For example, share value may be diluted through the issuance of additional common shares.

Diminishing-balance method (reducing-balance method) A method of computing the depreciation of a fixed asset in an accounting period, in which the percentage to be charged against income is based on the depreciated value at the beginning of the period (*see*net book value). This has the effect of reducing the annual depreciation charge against profits year by year. The annual percentage to be applied to the annual depreciated value is determined by the formula: rate of depreciation = 1 - (*S/C*)*1/N*,

where N = estimated life in years, S = estimated scrap value at the end of its useful life, and C = original cost.

Dio Is Days Inventory Outstanding.

Direct attribution Is the most precise method of costing an output. It seeks to capture accurately the volume and cost of resources used by particular activities. This can be expensive unless the information is already available because it requires detailed measurement of actual costs. Such direct measurement is seldom justifiable solely to improve the accuracy of a cost system, but many institutions use this method to obtain efficiency gains and cost savings.

Direct charge voucher (DCV) A prime document that records the purchases of parts and material directly chargeable to a job or process, without passing through the organization's stores. The document gives a description of the items, the commodity codes, the value of the items, and the accounting or cost code to which the items are chargeable.

Direct cost Is that portion of cost that is directly expended in providing a product or service for sale and is included in the calculation of COST OF GOODS SOLD, e.g. labor and inventory (it can be traced to a given cost object in an economically feasible manner). Opposite of indirect cost.

Direct cost of sales (direct production cost of sales) The cost of goods sold, expressed as direct materials, direct labour, and direct expenses only. The direct cost of sales excludes any overhead.

Direct Costing Also know as variable costing, a method of calculating costs that involves only raw materials, direct labor and variable overhead.

Direct costs 1. Product costs that can be directly traced to a product or cost unit. They are usually made up of direct materials (which can be charged directly to the product by means of materials requisitions), direct labour (charged by means of time sheets, time cards, or computer direct data entries), and direct expenses (which are subcontract costs charged by means of an invoice from the subcontractor). The total of direct materials, direct labour, and direct expenses is known as the prime cost. 2. Departmental or cost centre overhead costs that can be traced directly to the appropriate parts of an organization, without the necessity of cost apportionment. They can therefore be allocated to the cost centres. For example, the costs of a maintenance section that serves only one particular cost centre should be charged directly to that cost centre. *Compare* indirect costs.

Direct data entry The process of recording accounting and other transactions directly onto a computer system from individual department terminals. For example, direct labour times spent on jobs or processes can be entered directly into the computer system through a terminal in the operating department. Usually the entry is subjected to tests and constraints to ensure that it complies with certain parameters and to ensure that the system is not corrupted by the inputs from a remote terminal.

Direct expense Is that portion of expense that is directly expended in providing a product or service for sale and is included in the calculation of COST OF GOODS SOLD, e.g. labor and inventory.

Direct financing lease Is one in which the lessor's only source of revenue isinterest. The lessor (generally a bank or other financial institution) buys anasset and leases it to the lessee. This transaction is an alternative to the morecustomary lending arrangement in which a borrower uses the loan proceedsto purchase an asset. A direct financing lease is the functional equivalent of a loan.

Direct hour An hour spent working on a product, service, or cost unit of an organization. It is usually expressed as a direct labour hour, machine hour, or standard hour.

Direct labor utilization rate Is total payroll charged directly to job numbers in the period divided by the total payroll (direct and indirect) expended in the period. Since payroll is by far the single largest cost to operate a firm, generally speaking, the higher the direct labor rate, the more efficiently economically managed is the firm.

Direct labour cost (direct wages) Expenditure on wages paid to those operators who are directly concerned with the production of a product, service, or cost unit. It is one of the cost classifications making up the prime cost of a cost unit; it is quantified as the product of the time spent on each activity (collected by means of time sheets or job cards) and the rate of pay of each operator concerned. A percentage of the direct labour cost is sometimes used as a basis for absorbing production overheads to the cost unit in absorption costing.

Direct labour efficiency variance (labour efficiency variance) The expenditure variance arising in a standard costing system as part of the total direct labour cost variance. It compares the actual labour time taken to carry out an activity with the standard time allowed and values the difference at the standard direct labour rate per hour. The resultant adverse or favourable variance is the amount by which the budgeted profit is affected by virtue of labour efficiency. The formula for this variance is:

(standard hours allowed for production - actual hours taken) × standard rate per direct labour hour.

Direct labour hour An hour spent working on a product, service, or cost unit produced by an organization by those operators whose time can be directly traced to the production. The direct labour hour is sometimes used as a basis for absorbing production overheads to the cost unit in absorption costing.

Direct labour hour rate (labour hour rate) 1. The individual rate of pay per hour paid to operators categorized as direct labour. 2. An absorption rate used in absorption costing. It is obtained by the following formula:

(budgeted cost centre overheads)/(budgeted direct labour hours).

Direct labour rate of pay variance (labour rate variance) The expenditure variance arising in a standard costing system as part of the direct labour total cost variance. It compares the actual rate paid to direct labour for an activity with the standard rate of pay allowed for that activity for the actual hours worked. The resultant adverse or favourable variance is the amount by which the budgeted profit is affected by differences in direct labour rates of pay. The formulae for this variance are:

(standard rate per hour - actual rate per hour) × actual hours worked, or alternatively:

(standard rate per hour × actual hours worked) - actual wages paid.

Direct labour total cost variance The combination of the direct labour rate of pay variance and the direct labour efficiency variance; it compares the actual cost and the standard cost of the direct labour incurred in carrying out the actual production. The formula for this variance is:

(standard rate per hour × actual hours worked) - actual labour cost.

Direct labour Workers directly concerned with the production of a product service, or cost unit, such as machine operators, assembly and finishing operators, etc. *Compare* indirect labour.

Direct materials cost Expenditure on direct materials. It is one of the cost classifications that make up the prime cost of a cost unit and is ascertained by collecting together the quantities of each material used on each product by means of materials requisitions and multiplying the quantities by the cost per unit of each material. A percentage on direct materials cost is sometimes used as a basis for absorbing production overheads to the cost unit in absorption costing.

Direct materials Materials that are directly incorporated in the final product or cost unit of an organization. For example, in the production of furniture, direct materials would include wood, glue, and paint. *Compare* indirect materials.

Direct materials mix variance Part of the direct materials usage variance arising in standard costing, the difference between the total material used in standard proportions and the material used in actual proportions, valued at standard prices.

Direct materials price variance The expenditure variance arising in a standard costing system as part of the direct materials total cost variance. There are two alternative points at which the materials price variance may be established, either when the material is purchased or when it is issued to production. When established on issue to production, it compares the actual price paid for direct material used in a product with the standard purchase price of the material consumed. When established on purchase, it compares the actual price paid for the direct material purchased with the standard price allowed for the purchased material. The resultant adverse or favourable variance is the amount by which the budgeted profit is affected by differences in direct material prices. The formulae for this variance are:

(standard price per unit of material - actual price per unit of material) × actual units consumed or purchased,

or alternatively:

(standard price per unit of material × actual units consumed or purchased) actual material cost.

Direct materials stocks (direct materials inventory) The list of raw materials in store awaiting transfer to production, after which the materials are incorporated into work in progress.

Direct materials total cost variance A combination of the direct materials price variance and the direct materials usage variance; it compares the actual cost and the standard cost of the direct material consumed in carrying out the actual production. The formula for this variance is:

(standard price per unit of material × actual units of material consumed) actual material cost.

Direct materials usage variance The expenditure variance arising in a standard costing system as part of the direct materials total cost variance. It compares the actual quantity of material used to carry out production with the standard quantity allowed, and values the difference at the standard material price per unit. The resultant adverse or favourable variance is the amount by which the budgeted profit is affected by virtue of material usage. The formula for this variance is:

(standard quantity of material allowed for production - actual quantity used) × standard price per unit of material.

Direct materials yield variance Part of the direct materials usage variance arising in standard costing; it is the difference between the total standard quantity of material allowed for a process in standard proportions and the total actual material used, also in standard proportions, valued at standard prices.

Direct method A method of preparing a cash-flow statement under Financial Reporting Standard 1, in which operating cash receipts and payments are aggregated to show the net cash flow from operating activities.

Direct Overhead Costs directly associated with the manufacture of goods. That could include factory lighting, rent, insurance. Indirect overhead could include office expenses, R&D, lighting, etc.

Direct Placement Also known as a private placement, the sale of securities directly to one or more professional investors or institutions, frequently insurance companies. The sale of securities in this fashion avoids many of the fees typically associated with public offerings.

Direct write-off method Is a method of recognition of uncollectible accounts only when known to be such.

Director A person appointed to carry out the day-to-day management of a company. A public company must have at least two directors, a private company at least one. The directors of a company, collectively known as the board of directors, usually act together, although power may be conferred (by the articles of association) on one or more directors to exercise executive powers; in particular there is often a managing director with considerable executive power.

The first directors of a company are usually named in its articles of association or are appointed by the subscribers; they are required to give a signed undertaking to act in that capacity, which must be sent to the Registrar of Companies. Subsequent directors are appointed by the company at a general meeting, although in practice they may be appointed by the other directors for ratification by the general meeting. Directors may be discharged from office by an ordinary resolution with special notice at a general meeting, whether or not they have a service contract in force. They may be disqualified for fraudulent trading or wrongful trading or for any conduct that makes them unfit to manage the company.

Directors owe duties of honesty and loyalty to the company (fiduciary duties) and a duty of care; their liability in negligence depends upon their personal qualifications (e.g. a chartered accountant must exercise more skill than an unqualified man). Directors need no formal qualifications. Directors may not put their own interests before those of the company, may not make contracts (other than service contracts) with the company, and must declare any personal interest in work undertaken by the company. Their formal responsibilities include: presenting to members of the company, at least annually, the accounts of the company and a directors' report; keeping a register of directors, a register of directors' shareholdings, and a register of shares; calling an annual general meeting; sending all relevant documents to the Registrar of Companies; and submitting a statement of affairs if the company is wound up (*see*liquidator).

Directors' remuneration consists of a salary and in some cases **directors' fees**, paid to them for being a director, and an expense allowance to cover their expenses incurred in the service of the company. Directors' remuneration must be disclosed in the company's accounts and shown separately from any pension payments or compensation for loss of office. *See also* Cadbury Report; directors or higher-paid employees; executive director; non-executive director; shadow director.

Director's report Is written by the Directors of a company and forms part of the company's financial statements. This report must support and elaborate on the information contained in the Income Statement, Balance Sheet and Source and Application of Funds Statement.

Directors' interests The interests held by directors in the shares and disclosure The provision of financial and non-financial information, on a regular basis, to those interested in the economic activities of an organization. The information is normally given in an annual report and accounts which includes financial statements and other financial and non-financial information. The annual report and accounts of a limited company is regulated by company legislation, accounting standards, and, in the case of a quoted company, by stock exchange regulations.

Directors responsibility statement Contains written assurances from the board of directors that all company policies are followed: i) in the preparation of the Annual Accounts, the applicable Accounting Standards and there are no material departures; ii) selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year and of the profit of the Company for that period.

Directors valuation Is a valuation that is not an independent valuation.

Disability insurance, In the United States, is a payroll tax required in some states that is deducted from employee paychecks to insure income during periods where an employee is unable to work due to an injury or illness.

Disappearing Deductible An insurance policy where losses below a certain amount are excluded. Those above a certain amount are paid in full and those in between are paid a multiple of the loss.

Disburse/disbursement Is the paying out of money to satisfy a debt or an expense.

Disclaimer (disclaim) A statement that the auditor is unable to express an opinion as to the presentation of financial statements in conformity with U.S. gaap.

Disclaimer of Opinion Statement by an auditor indicating inability to express an opinion on the fairness of the financial statements provided and the reason for the inability. The auditor is required to disclaim depending on the limitation in scope.

Disclosure document program, In the United States, is a form of legal protection that safeguards intellectual property while it is in its development stages.

Disclosure principle States that any and all information that affects the full understanding of a company's financial statements must be include with the financial statements. Some items may not affect the ledger accounts directly. These would be included in the form of accompanying notes. Examples of such items are outstanding lawsuits, tax disputes, and company takeovers.

Disclosure Revealing information. Financial statement footnotes are one way of providing necessary disclosures.

Discontinued operations Is the sale, disposal, or planned sale in the near future of a business segment (product line or class of customer).

Discount 1. A deduction from a bill of exchange when it is purchased before its maturity date. The party that purchases (discounts) the bill pays less than its face value and therefore makes a profit when it matures. The amount of the discount consists of interest calculated at the bill rate for the length of time that the bill has to run. 2. A reduction in the price of goods below list price, for buyers who pay cash (*see*cash discount), for members of the trade (*see*trade discount), for buying in bulk (bulk or quantity discount), etc. 3. The amount by which the market price of a security is below its par value. A £100 par value loan stock with a market price of £95 is said to be at a 5% discount.

Discount allowed, Normally, is a reduction of the invoice amount for early payment of the invoice value.

Discount factor (present-value factor) A factor that, when multiplied by a particular year's predicted cash flow, brings the cash flow to a present value. The factor takes into consideration the number of years from the inception of the project and the hurdle rate that the project is expected to earn before it can be regarded as feasible. The factor is computed using the formula:

discount factor = $1/(1+r)t$,

where r = hurdle rate required and t = the number of years from project inception.

In practice there is little necessity to compute discount factors when carrying out appraisal calculations as they are readily available in discount tables. Most computer spreadsheet programs now include a discounted cash flow routine, which also obviates the need for using discount factors.

Discount rate Is the interest rate that the Federal Reserve of the U.S. Government charges a U.S. bank to borrow funds when a bank is temporarily short of funds. Collateral is necessary to borrow, and such borrowing is quite limited because the Fed views it as a privilege to be used to meet short-term liquidity needs, and not a device to increase earnings.

Discount received a discount granted to a supplier, for example for a bulk purchase or a prompt payment. It is shown as a credit in the profit and loss account.

Discount Yield The yield on a security sold at a discount. U.S. treasury bills are sold at a discount. The face amount is returned to the investor at maturity. The annual yield is computed by dividing the discount by the face amount, then multiplying by the number of days in the year (360) and dividing by the number of days to maturity. For example, a note purchased for $950 that returns $1,000 at maturity 11 months later. The note pays no interest; instead, your entire return is determined by the amount of the discount ($50 in this example). Banker's acceptances, commercial paper, and other short-term instruments frequently use this approach to compensate the buyer.

Discounted cash flow method Is a budgeting method for project evaluation and selection.

Discounted cash flow Is a valuation method best used to evaluate a business established for the purpose of fulfilling a specific project, in certain startup and other companies where cash flow is more important than net income, and when a certain time frame is set where an investor wishes to see his investment returned over a specific period of time. In discounted cash flow, the present value of liabilities is subtracted from the combined present value of cash flow and tangible assets, which determines the value of the business.

Discounted earnings Determines the value of a business based upon the present value of projected future earnings, discounted by the required rate of return (capitalization rate). Usually, the question is how well earnings are projected.

Discounted payback Is the period of time required to recover initial cash outflow when the cash inflows are discounted at the opportunity cost of capital.

Discounting Is the selling of accounts receivable to a financial entity.

Discovery sampling Acceptance sampling (sampling to determine whether internal control compliance is greater than or less than the tolerable deviation rate) when the expected attribute occurrence rate is zero.

Discovery value accounting The method of accounting used for extractive enterprises, such as oil and gas.

Discrepancy Is a difference between conflicting facts or claims or opinions. In import / export, it is situations relating to official documents that are presented that do not conform to what is required within the Letter of Credit.

Discretionary accrual Is a non-mandatory expense/ asset that is recorded within the accounting system that has yet to be realized. An example of this would be management bonus.

Discretionary cost Can be increased or decreased at the discretion of the decision maker (e.g., advertising and business travel).

Discretionary income Means the amount of a company's income available for spending after the essentials have been met.

Discretionary Means it is not mandatory, it is up to the individual or company.

Discretionary Trust Arrangement in which the trustee has the authority to make investment decisions and has control over investments within the framework of the trust instrument.

Discussion memorandum A document published by the Financial Accounting Standards Board before issuing a Statement of Financial Accounting Standard. The document specifies the topic under consideration, describes the alternative accounting treatments, and explains the perceived advantages and disadvantages of each treatment.

Dishonored note Is a note on which a debtor has defaulted.

Dishonour 1. To fail to pay a cheque when the account of the drawer does not have sufficient funds to cover it. When a bank dishonours a cheque it marks it 'refer to drawer' and returns it to the payee through his or her bank. 2. To fail to accept a bill of exchange (dishonour by non-acceptance) or to fail to pay a bill of exchange (dishonour by non-payment). disinflation A mild form of deflation used as part of a government's policy to curb inflation by restricting demand.

Disintermediation Is the diversion of savings from accounts with low fixed interest rates to direct investment in high-yielding instruments.

Disposable income Is the amount of an individual's income left after taxes which is available for spending and / or savings.

Disposals account An account used to record the disposal of a fixed asset. The original cost (a debit entry), accumulated depreciation (a credit entry), and the amount received (credit entry) are transferred to the account, the balancing figure being any profit (debit entry) or loss (credit entry) on disposal.

Disproportionate expense and undue delay A reason for excluding an individual subsidiary undertaking from the consolidated financial statements of a group. It concerns a situation in which there would be a relatively high cost and an excessive time lag in obtaining the information necessary for the preparation of the consolidated accounts. Financial Reporting Standard 2, Accounting for Subsidiary Undertakings, seeks to narrow this exclusion by stating that disproportionate expense and undue delay cannot justify the exclusion from consolidation of subsidiary undertakings that are individually or collectively material in the context of the group. *See also*exclusion of subsidiaries from consolidation.

Dissimilar activities A situation in which the activities of one undertaking in a group are so different from those of the other group undertakings that its inclusion in consolidated financial statements would be incompatible with the obligation to give a true and fair view of the activities of the group. This exclusion may not be used merely because some of the undertakings are industrial, some commercial, and some provide services, for example. Nor is exclusion permitted merely because the industrial or commercial activities involve different products or provide different services. Financial Reporting Standard 2, Accounting for Subsidiary Undertakings, states that it would be unusual for activities to be so different that the exclusion of the subsidiary undertakings would be appropriate. In the unlikely case that it were appropriate to use this exclusion, the excluded subsidiary should be recorded in the consolidated financial statements, using the equity method of accounting.

Dissolution Is the act of ending, terminating or winding-up a company or state of affairs. For example, when the life of a company is ended by normal legal means, it is said to be "dissolved". The same is said of marriage or partnerships which, by dissolution, ends the legal relationship between those persons formally joined by the marriage or partnership.

Distributable cash Is a common term used by income funds to describe the amount of cash that is available to meet distribution obligations of the fund. Distributable cash does not have a standard meaning and may be calculated differently by different income funds.

Distributable profits The profits of a company that are legally available for distribution as dividends. They consist of a company's accumulated realized profits after deducting all realized losses, except for any part of these net realized profits that have been previously distributed or capitalized. Public companies, however, may not distribute profits to such an extent that their net assets are reduced to less than the sum of their called-up capital and their undistributable reserve.

Distributable reserves The retained profits of a company that it may legally distribute by way of dividends.

Distributed logic A computer system that supplements the main computer with remote terminals capable of doing some of the computing, or with electronic devices capable of making simple decisions, distributed throughout the system.

Distributed processing A system of processing data in which several computers are used at various locations within an organization instead of using one central computer. The computers may be linked to each other in a network, allowing them to cooperate, or they may be linked to a larger central computer, although a significant amount of the processing is done without reference to the central computer.

Distribution centre A warehouse, usually owned by a manufacturer, that receives goods in bulk and despatches them to retailers.

Distribution channel The network of firms necessary to distribute goods or services from the manufacturers to the consumers; it therefore primarily consists of wholesalers and retailers.

Distribution cost Is any cost incurred to fill an order for a product or service. It includes all money spent on warehousing, delivering and/or shipping products and services to customers.

Distribution Expense Expense of selling, advertising, and delivery of goods and services.

Distribution overhead (distribution cost; distribution expense) The cost classification that includes the costs incurred in delivering a product to the customers. Examples include postage, transport, packaging, and insurance.

Distribution to owners Is payment of earnings to owners of a business organization in the form of a dividend. A dividend is a distribution to a corporation's stockholders usually in cash; sometimes in the corporation's stock and much less frequently in property (usually other securities).

Distributions Are payments from fund or corporate cash flow. May include dividends from earnings, capital gains from sale of portfolio holdings and return of capital. Fund distributions can be made by check or by investing in additional shares. Funds are required to distribute capital gains (if any) to shareholders at least once per year. Some corporations offer Dividend Reinvestment Plans (D.R.P.).

Distributor An intermediary, or one of a chain of intermediaries (see distribution channel), that specializes in transferring a manufacturer's goods or services to the consumers.

Dit Is Depreciation, Interest and Taxes.

Diversification 1. Movement by a manufacturer or trader into a wider field of products. This may be achieved by buying firms already serving the target markets or by expanding existing facilities. It is often undertaken to reduce reliance on one market, which may be diminishing (e.g. Tobacco), to balance a seasonal market (e.g. Ice cream), or to provide scope for general growth.

2. The spreading of an investment portfolio over a wide range of companies to avoid serious losses if a recession is localized to one sector of the market.

Divestment 1. The act of realizing the value of an asset by selling or exchanging it. It is the opposite of investment.

2. The selling of or closing down of one or more of a business's operating activities.

Dividend capitalization: Since most closely held companies do not pay dividends, when using dividend capitalization valuators must first determine dividend paying capacity of a business. Dividend paying capacity based on average net income and on average cash flow are used. To determine dividend paying capacity, near term capital needs, expansion plans, debt repayment, operation cushion, contractual requirements, past dividend paying history of a business and dividends of a comparable company should be investigated. After analyzing these factors, percent of average net income and of average cash flow that can be used for the payment of dividends can be estimated. What also must be determined is the dividend yield, which can best be determined by analyzing comparable companies. As with the price earnings ratio method, this usually produces a subjective result.

Dividend control (**dividend limitation**) Regulations limiting the amount of dividend that may be paid to shareholders, which have been imposed by the government on a number of occasions, usually as part of a prices and incomes policy as a counterpart to a wage freeze.

Dividend cover The number of times a company's dividends to ordinary shareholders could be paid out of its net profits after tax in the same period.

For example, a net dividend of £400,000 paid by a company showing a net profit of £1M is said to be covered 2½ times. Dividend cover is a measure of the probability that dividend payments will be sustained (low cover might make it difficult to pay the same level of dividends in a bad year's trading) and of a company's commitment to investment and growth (high cover implies that the company retains its earnings for investment in the business). Negative dividend cover is unusual, and is taken as a sign that a company is in difficulties.

Dividend Exclusion Regular (not S) corporations can exclude from income 70% of dividends received. If the corporation owns 20% or more of the stock of the other corporation, it can exclude 80%. A 100% exclusion is provided for 80% plus owned corporations.

Dividend Is that portion of a corporation's earnings which is paid to the stockholders.

Dividend payout ratio Is a measure of the percentage of earnings paid out in dividends; computed by dividing cash dividends by the net income available to each class of stock.

Dividend Payout Ratio The ratio of the annual dividend to the earnings of a company. Stable, mature companies (such as utilities) typically have a high payout ratio.

Dividend policy A company's policy on the extent to which profits should be distributed by way of dividends to shareholders and on the extent to which profits should be retained in the business.

Dividend waiver A decision by a major shareholder in a company not to take a dividend, usually because the company cannot afford to pay it.

Dividend warrant The cheque issued by a company to its shareholders when paying dividends. It states the tax deducted and the net amount paid. This document must be sent by non-taxpayers to the Inland Revenue when claiming back the tax.

Dividend yield Is the annual rate of return, expressed as a percentage, on an investment.

Dividend yield ratio Allows investors to compare the latest dividend they received with the current market value of the share as an indictor of the return they are earning on their shares. The formula for the dividend yield is: Dividend yield = Latest annual dividends / Current market share price.

Dividend-growth model A method for calculating the cost of capital for a company, using the dividends paid and likely to be paid by the company.

Dividends distribution of earnings to owners of a corporation in cash, other assets of the corporation, or the corporation's capital stock.

Dividends in arrears Dividends that are due but have not been paid. Dividends in arrears must be disclosed in the notes to the financial statements of a company.

Dividends payable Any dividends that have been declared by a company but not yet paid. They are shown as an appropriation in the profit and loss account and a current liability in the balance sheet.

Dividends per share (DPS) Ratio is very similar to the EPS: EPS shows what shareholders earned by way of profit for a period whereas DPS shows how much the shareholders were actually paid by way of dividends. The formula: Dividends per share = Dividends paid to equity shareholders / Average number of issued equity shares.

Division IS self sufficient unit within a company. A division contains all the functions necessary to operate indepently from the parent company.

Divisional performance measurement The way in which the central management of an organization measures the performance of each of the individual divisions in a divisionalized structure. Methods used include return on capital employed, residual income, and profit-to-sales ratio.

Divisionalization The process of transferring business from subsidiaries into one company. The rationalization and streamlining of subsidiaries should lead to a significant saving in administrative costs.

Dock receipt Is a document issued by the ocean carrier of a shipment acknowledging receipt of the goods to be shipped.

Doctrine Is a. something that is taught; b. a principle or position or the body of principles in a branch of knowledge or system of beliefs; c. a principle of law established through past decisions; d. a statement of fundamental government policy especially in international relations.

Document (documentary) (documentation) Written or printed paper that bears information that can be used to furnish decisive evidence. Could also be a recording, computer readable information, or a photograph.

Document retention policy Is a set of guidelines that a company follows to determine how long it should keep certain records, including e-mail and web pages. The policy is important for many reasons, including legal requirements that apply to some documents. For example: a. for tax-related items - the recommended retention is seven years; and, b. for real estate records - the recommended retention is twenty years.

Documentary credit Is an arrangement by banks for settling international business transactions. A letter of credit is a form of documentary credit.

Documentary draft Any order in writing requiring the recipient to pay the amount specified on the face of the document, either on presentation of the document (sight draft) or at a fixed future date (time draft).

Documentation Completion Date A complete and final set of audit documentation should be assembled for retention as of a date not more than 45 days after the report release date.

Dollar control systems Are systems used in inventory management that reveals the cost and gross profit margin on individual inventory items.

Dollar value lifo, In the U.S., is a method of expressing the value of an inventory in monetary values rather than units. Each homogeneous group of inventory items is converted into base-year prices by using the appropriate price indices. The difference between opening and closing inventories is a measure in monetary terms of the change in the financial period.

Dollarization Is the use of U.S. dollars by a country as its own currency; the linking of a currency's value to that of the U.S. dollar; or, the use of the U.S. dollar for accounting purposes.

Dollar-weighted rate of return Is also called the internal rate of return; the interest rate that makes the present value of the cash flows from all the sub-periods in an evaluation period plus the terminal market value of the portfolio equal to the initial market value of the portfolio.

Domicile (domicil) 1. The country or place of a person's permanent home, which may differ from that person's nationality or place where they are a resident. Domicile is determined by both the physical fact of residence and the continued intention of remaining there. For example, a citizen of a foreign country who is resident is not necessarily domiciled there unless there is a clear intention to make the UK a permanent home. Under the common law, it is domicile and not residence or nationality that determines a person's civil status, including the capacity to marry. A corporation may also have a domicile, which is determined by its place of registration. Under law a child normally takes the domicile of its father unless the child is illegitimate or the parents divorce, when the child takes its mother's domicile. The domicile of choice is the domicile an individual chooses to take up. It involves taking up permanent residence in a country other than the domicile of origin with the intention of never returning to live in the original country. The domicile of origin is acquired at birth and is usually that of the father except in the case of illegitimate children or those of divorced parents, when the child takes the mother's domicile. In order to prove that the domicile of origin has been relinquished in favour of the domicile of choice, tangible changes have to be made. Links with the country of origin must be severed and active steps taken to become involved with the country that is the domicile of choice, e.g. by making a will under the laws of the domicile of choice. The status of domicile of choice will be kept under review and if actions are subsequently taken to re-establish links with the domicile of origin, the individual's domicile could revert to the domicile of origin. The domicile of dependency was a concept that applied to women whose marriage took place prior to 1 January 1974. In these circumstances the woman acquired the domicile of her husband. For marriages since 31 December 1973 the position is determined under the provisions of the Domicile and *Matrimonial Proceedings Act* (1973), which allows a woman to retain her own domicile of origin or domicile of choice on marriage, if it differs from that of her husband. • **2.** In banking, an account is said to be domiciled at a particular branch and the customer treats that branch as his or her main banking contact. Customers may be charged for using other branches as if they were their own. Computer technology, however, now allows customers to use many branches as if their account was domiciled there.

Dominant influence An influence that can be exercised over a company to achieve the operating and financial policies desired by the holder of the influence, notwithstanding the rights or influence of any other party. If one organization exerts such a dominant influence over a company, this company should be treated as a subsidiary of the organization and consolidated into the group accounts of the organization. This principle is made clear in Financial Reporting Standard 2, Accounting for Subsidiary Undertakings.

Donated assets Are assets received in a voluntary non-reciprocal transfer from another entity such as gifts of capital assets; usually voluntary contributions of resources to a governmental entity by a non-governmental entity.

Donated capital Is a gift of assets to a company, usually by state or local governments, to induce a business to relocate to their jurisdiction.

Doomsday ratio Is related to the quick (acid test) ratio in that it is a conservative approach to debt coverage. The doomsday ratio only considers the cash on hand when evaluating if an entity can cover their current liabilities. The approach is that if the business were to go bankrupt today, would the business have enough cash on hand to cover current debts. The ratio is considered a good indicator of the cash cushion of safety. It may spot cash shortages, thereby assisting in avoiding a credit crisis. It is calculated: Cash divided by Current Liabilities.

Dormant company A company that has had no significant accounting transactions for the accounting period in question. Such a company need not appoint auditors.

Double account system A now outdated way of presenting financial statements, used by railways and public utilities prior to privatization.

Double accounting Is the un-intentional, or sometimes fraudulently intentional, double counting of assets or liabilities, or any other datasets, which, in the end, give an inaccurate view of what the data really means. In accounting, this is usually caused by a multiplicity of entries of the same data which, in the end, causes confusion or financial reporting inaccuracies.

Double declining balance method A method of depreciation in which the historical cost (or revalued amount) of an asset less its estimated residual value (*see*net residual value) is divided by the number of years of its estimated useful life and the resulting amount is multiplied by two to give the depreciation figure. For example, in the first year an asset costing £12,000 with an estimated residual value of £2000 and an estimated useful life of 10 years would have a depreciation charge of £2000, i.e. 2 × [(£12,000 £2000)/10].

Double taxation agreement An agreement made between two countries identifying the relief available to companies or individuals that are subject to tax in both countries.

Double taxation relief Relief available when income or gains are liable to tax in more than one country. Double taxation relief is given under the provisions of a double taxation agreement between the UK and the country concerned, if one exists, or it can be given unilaterally.

Double-entry accounting Is a system of recording transactions in a way that maintains the equality of the accounting equation. The accounting technique records each transaction as both a credit and a debit. Double-entry bookkeeping (DEB) or accounting was developed during the fifteenth century and was first recorded in 1494 as a system by the Italian mathematician Luca Pacioli.

Double-Entry Bookkeeping Method of recording financial transactions in which each transaction is entered in two or more accounts and involves two-way, self-balancing posting. Total debits must equal total credits.

Double-entry cost accounting The maintenance of cost accounting records using the principles of double-entry book-keeping.

Doubtful debts Money owed to an organization, which it is unlikely to receive. A provision for doubtful debts may be created, which may be based on specific debts or on the general assumption that a certain percentage of debtors' amounts are doubtful. As the doubtful debt becomes a bad debt, it may be written off to the provision for doubtful debts or alternatively charged to the profit and loss account if there is no provision. *See*provision for bad debts.

Dow jones industrial average Is an index that tracks the daily share value of 30 large US companies listed on the New York Stock Exchange. The Dow Jones generally mirrors the exchange as a whole.

DPO Is Days Payables Outstanding.

Dr Is an ancient Italian abbreviation for the Italian word 'debare'; meaning 'debit' (not to be confused with the acronym **DR** with both letters in uppercase).

Draft 1. *See*bank draft.

2. Any order in writing to pay a specified sum, e.g. a bill of exchange.

3. A preliminary version of a document, before it has been finalized.

Draft, demand or sight, In import / export, is a draft payable upon presentation to the drawee. It may be used when the exporter wishes to retain control of the shipment for credit or title retention reasons. The buyer must pay the bank before receiving the documents to take custody of the goods. A COD shipment is similar.

Dragon bond A US dollar bond issued in the Asian bond markets.

Drawback the refund of import duty by the customs and excise when imported goods are re-exported. Payment of the import duty and claiming the drawback can be avoided if the goods are stored in a bonded warehouse immediately after unloading from the incoming ship or aircraft until reexport.

Drawdown Is the magnitude of a decline in account value, either in percentage or currency terms.

Drawee Is the buyer of a draft instrument.

Drawer 1. A person who signs a bill of exchange ordering the drawee to pay the specified sum at the specified time.

2. A person who signs a cheque ordering the drawee bank to pay a specified sum of money on demand.

Drop ship Is where the seller/retailer of a product ships the product directly from the manufacturer to the customer without requiring inventory carrying by the seller/retailer.

Dso, In accounting, is an acronym that usually means 'Days Sales Outstanding'.

Dtd Can be: Dated, Day-to-day, or Document Type Description, among others.

Dual date If a major event comes to the auditor's attention between the report date and issuance of the report, the financial statements may include the event as an adjustment or disclosure. The auditor dual dates the audit report (as of the end of fieldwork, except footnote xx, which is dated later).

Dual Dating Dating of the acccountants' or auditors' report when a subsequent event disclosed in the financial statements occurs after completion of the field work but before issuance of the report. For example, "January 3, 19xx, except for Note x, as to which the date is March 10, 19xx."

Duality concept Is the foundation of the universally applicable double entry book keeping system. It stems from the fact that every transaction has a double (or dual) effect on the position of a business as recorded in the accounts. For example, when an asset is bought, another asset cash (or bank) is also and simultaneously decreased OR a liability such as creditors is also and simultaneously increased. Similarly, when a sale is made the asset of stock is reduced as goods leave the business and the asset of cash is increased (or the asset of debtors is increased) as cash comes into the business (or a promise to pay is made and accepted). Every financial transaction behaves in this dual way.

Dual-purpose test Audit procedures are classified as substantive tests or tests of controls. If a procedure provides both types of evidence it is a dual-purpose test.

Due Date Each governing agency and its forms scheduled reporting and most importantly payments have a required due date. It is this date that if most files timely may result in a penalty, fine, and commence interest charges.

Due Diligence (1) Procedures performed by underwriters in connection with the issuance of a securities exchange commission (SEC) registration statement. These procedures involve questions concerning the company and its business, products, competitive position, recent financial and other developments and prospects. Also performed by others in connection with acquisitions and other transactions.

(2) Requirement found in ethical codes that the person governed by the ethical rules exercise professional care in conducting his or her activities.

Due-On-Sale A clause in a mortgage that stipulates any balance remaining on a mortgage is due when the underlying property is sold.

Dumping Is the selling of merchandise in a foreign country at, or, below cost in order to seize market share.

Dun & bradstreet (D&B) Is a United States based for profit agency that furnishes subscribers with marketing statistics and the financial standings and credit ratings of businesses.

Dun Is when you importune (beg or are insistent upon) a debtor for payment: a dunning letter.

Duration drivers Represent the amount of time required to perform an activity.

Duty Is a tax imposed by a customs authority on imported goods. Often used interchangeably with the term "tariff."

E

E&o insurance Is an errors and omissions, or E&O, liability policy (often called malpractice insurance) covers liability for negligent acts, errors and omissions committed by professionals, including physicians, accountants, lawyers, etc.

E&oe Is a British acronym that stands for "Errors and Omissions Excepted". E&OE is a legal disclaimer that notifies the reader that, without prejudice, that the content and/or validity of the subject data may change without notice.

E&P Is Earnings and Profits.

E.C. (EUROPEAN COMMUNITY or EUROPEAN COMMON MARKET) Is a trading block of countries in Europe that have agreed on common regulations on cross-border trade.

Ea Is Enrolled Agent (IRS designation).

Early repayment tax clause A clause in a loan agreement that allows the loan to be repaid if changes occur to any relevant tax legislation that would have the effect of increasing the amount of interest payable.

Earned Income Credit A refundable tax credit for eligible low income workers, subject to computations based on qualifying children and phase in and phase out income levels.

Earned income Is that income realized by the provisioning of goods and services.

Earning asset Is an asset which provides income (e,g, rental property).

Earning power Is earnings before interest and taxes (EBIT) divided by total assets.

Earning quality Is best determined through the inverse relationship between the amount of time elapsed between revenue recognition and cash collection.

Earnings available for ordinary shareholders The profit of a company that is available for distribution in the form of a dividend to the holders of ordinary shares.

Earnings before interest and tax (**EBIT**) The profit of a company as shown on the profit and loss account, before deducting the variables of interest and tax. This figure, which is used in calculating many ratios, enables better comparisons to be made with other companies.

Earnings Form Business interruption insurance where the payment is a specified amount only when the loss is caused by an insured peril.

Earnings from operations (EFO) Represent earnings before other operating items less

(i) depreciation and amortization plus

(ii) other income less

(iii) other expense.

Earnings Is a term that refers to the financial capacity of a corporation to make distributions to shareholders other than return of capital, e.g., dividends.

Earnings management Occurs when managers use judgment in financial reporting and in structuring transactions to alter financial reports to either mislead some stakeholders about the underlying economic performance of the company, or to influence contractual outcomes that depend on reported accounting numbers.

Earnings per share (EPS) Is earnings before extraordinary gains and losses, less preferred-share dividends, divided by all common shares outstanding at the most recent fiscal year end. Net income, or earnings, refers to the company's after-tax profits before extraordinary gains or extraordinary losses for the most recent annual period.

Earnings Per Share (EPS) Measure of performance calculated by dividing the net earnings of a company by the average number of shares outstanding during a period.

Earnings retained The profit of a company after the distribution of dividends; the earnings retained in the business are used to fund future operations.

Earnings retention Is the proportion of net income that is not paid in dividends. A firm earning $80 million after taxes and paying dividends of $20 million has a retention rate of $60 million/$80 million, or 75%. A high retention rate makes it more likely a firm's income and dividends will grow in future years.

Earnings The net income or profit of a business. Because of the importance of earnings in calculating the earnings per share, there has been considerable debate as to its definition. Under Statement of Standard Accounting Practice 6 (SSAP 6) earnings excluded extraordinary items; this permitted some companies to use creative accounting to ensure that they reported a high earnings figure. The introduction of Financial Reporting Standard 3 by the Accounting Standards Board removed SSAP 6 and amended SSAP 3, concerned with earnings, so that any extraordinary items are now included in the calculation. This has led to a greater volatility in the earnings per share figure.

Earnings yield The ratio of the earnings per share of a company to the market price of the share, expressed as a percentage. *See also*price-earnings ratio.

Earn-out agreement (**contingent contract**) An agreement to purchase a company in which the purchaser pays a lump sum at the time of the acquisition, with a promise to pay more (a contingent consideration) if certain criteria, usually specified earnings levels, are met for a specified number of years. This method of acquisition has been popular in 'people' businesses, in particular advertising agencies.

Ebit Is Earnings Before Interest and Tax. EBIT is an indicator of a company's financial performance calculated as revenue less expenses excluding tax and interest. It is sometimes referred to as operating earnings.

Ebitda Means Earnings Before Interest, Taxes, Depreciation and Amortization, but after all product / service, sales and overhead (SG&A) costs are accounted for. Sometimes referred to as Operational Cash Flow.

Ebitdarm Is an acronym for Earnings Before Interest, Taxes, Depreciation, Amortization, Rent and Management fees.

Econometrics Literally means 'economic measurement'. It is the branch of economics that applies statistical methods to the empirical study of economic theories and relationships. It is a combination of mathematical economics, statistics, economic statistics and economic theory.

Economic appraisal A method of capital budgeting that makes use of discounted cash flow techniques to determine a preferred investment. However, instead of using annual projected cash flows in the analysis, the technique discounts over the project's life the expected annual economic costs and economic benefits. It is mainly used in the assessment of governmental or quasi-governmental projects, such as road, railway, and port developments.

Economic batch quantity A refinement of the economic order quantity to take into account circumstances in which the goods are produced in batches. The formula is:

$Q = [2cdr/h(r - d)]½$,

where Q = quantity to be purchased or manufactured, c = cost of processing an order for delivery, d = demand in the period for that stock item, h = cost of holding a unit of stock, and r = rate of production.

Economic benefits The projected benefits revealed by an economic appraisal. Economic benefits are usually gains that can be expressed in financial terms as the result of an improvement in facilities provided by a government, local authority, etc. For example, the economic benefits arising from the construction of a new or improved road might include lower vehicle operating costs, time savings for the road users, and lower accident costs as a result of fewer accidents. In each case the savings would be in economic terms, that is, excluding the effect of taxes and subsidies within the economy. *See also*economic costs.

Economic book valueAllows for a book value analysis that adjusts the assets to their market value. This valuation allows valuation of goodwill, real estate, inventories and other assets at their market value.

Economic costs The projected costs revealed by an economic appraisal. Economic costs differ from financial costs in that they exclude the transfer payments within the economy, which arise when an investment is made. In the construction of a road, for example, the economic costs exclude taxes and import duties on the materials and plant used in its construction, while any subsidies made are added back to the costs.

Economic depreciation Is the decline in real estate property value caused by external forces, such as neighborhood blight or adverse development.

Economic entity Accounting concept that provides context or "point of view" for the economic events (i.e., transactions) captured by the financial statements. In short, it answers the questions, "Whose asset is it?"; "Whose liability is it?"

Economic event Is the transfer of control of an economic resource from one party to another party.

Economic exposure, In foreign exchange, is the extent to which the value of the firm, as measured by the present value of all expected future cash flows, will change when exchange rates change.

Economic income Is the maximum amount that can be distributed to owners during the accounting period and leave the business as well off at the end of the accounting period as it was at the beginning of the period; i.e. cash flow based.

Economic order quantity Is the order quantity that minimizes total inventory costs. A total inventory cost is the sum of ordering, carrying and stock-out costs.

Economic profits Is the difference between the total revenue and the total opportunity costs.

Economic substance Refers to the application of income tax laws, i.e., the substance of the transaction, rather than its form, determines the tax consequences, with few exceptions. The "form" of a transaction is only the label the interested parties attach to their arrangement. For instance, an arrangement might be called a compensation agreement, loan, lease or sale. Documents may support the form, but the courts are not concerned with these labels or papers that purport to govern the transaction — they focus on its substance. The "substance over form" analysis is used to dissect self-serving transactions between parties, including loans and payments to family members; transactions between related corporations and their shareholders, partnerships and their partners; and between trusts and their beneficiaries. For instance, sale of a home by a parent to a child may be recharacterized by the court as a gift, if the child never pays for it. Related-party transactions provide fertile territory for self-dealing, with the tax benefit as the real motivating purpose, disguised by the form of the transaction. In contrast, arm's-length transactions with independent third parties are far less vulnerable.

Economic value (EV) Is the value of an asset deriving from its ability to generate income.

Economic value added (EVA) Measures the difference between the return on a companies capital and the cost of that capital. A positive EVA indicates that value has been created for shareholders; a negative EVA signifies value destruction.

Economically feasible Means that the benefit of tracing the cost (greater accuracy) outweighs the cost of doing so.

Economies of scale Is based upon the theory that the more you produce of a good, the less that it costs for each additional unit, i.e., efficiency. Specifically, it is the reduction of the costs of production of goods due to increasing the size of the producing entity and the share of the total market for the good/product.

Edi ?Electronic Data Interchange? is the use of communication between an entity and customers or suppliers to transact business electronically. Purchase, shipping, billing, cash receipt, and cash disbursements can be completed entirely by exchanging electronic messages.

Edit check Reasonableness, validity, limit, and completeness tests that are programmed routines designed to check input data and processing results for completeness, accuracy and reasonableness.

Edp ?Electronic Data Processing?. Processing of information by computer as opposed to handwritten records.

EF&L is Errors, Fines and Losses.

Effective annual rate The total interest paid or earned in a year expressed as a percentage of the principal amount at the beginning of the year.

Effective date of interest Is the market rate at time of a debt issue.

Effective income tax rate The income tax provision (expense) shown on an income statement divided by pretax income. This differs from the statutory rate because of deductions, credits, and exclusions.

Effective interest method A method for accounting for bond premiums or discounts. The interest expense is calculated by multiplying the carrying value of the bond at the beginning of a financial period by the effective interest rate. This is the real rate of interest on a loan calculated by dividing the nominal interest by the proceeds of the loan.

Effective interest rate Is the cost of credit on a yearly basis expressed as a percentage. Includes up-front costs paid to obtain the loan, and is, therefore, usually a higher amount than the interest rate stipulated in the note.

Effective internal control Reasonable assurance that the entity?s operational objectives are achieved, that published financial statements are reliably prepared, and applicable laws and regulations are complied with.

Effective tax rate Is the net rate a taxpayer pays on income that includes all forms of taxes. It is calculated by dividing the total tax paid by taxable income.

Effectiveness Producing a desired outcome. An audit procedure is effective if the evidence supports a correct conclusion.

Efficiency Is the ratio of the output to the input of any system.

Efficiency ratio A ratio that measures the efficiency of labour or an activity over a period by dividing the standard hours allowed for the production by the actual hours taken. It is usually expressed as a percentage, using the formula:

(standard hours allowed × 100)/actual hours worked.

Efficiency variances The expenditure variances that arise in a standard costing system as part of the total direct labour cost variance and the total production overhead variable cost variance. It compares the actual time taken to carry out an activity with the standard time allowed, and values the difference at either the standard labour rate per hour or the variable overhead recovery rate. The resultant adverse or favourable variance is the amount by which the budgeted profit is affected by either direct labour efficiency or the amount of variable overhead over- or under-recovered due to efficiency. The formulae for this variance are:

Direct labour:

(standard hours allowed for production - actual hours taken) × standard rate per direct labour hour.

Variable overhead:

(standard hours allowed for production - actual hours taken) × standard variable overhead absorption rate.

Efficient market hypothesis The hypothesis that assumes stock markets are efficient and therefore share prices vary in a rational way, reflecting all new information about future prospects. For stock markets to be efficient the following conditions should exist: the prices of securities bought and sold should reflect all the relevant information, which should be available to both the buyers and sellers; no individual dominates the market; transactions costs are not too high to discourage trading.

Efficient market theory Is the hypothesis that market prices reflect the knowledge and expectations of all investors. Within this theory, investors who adhere to it believe it to be highly improbable that market movement can be predicted, i.e., using darts to chose stocks are just as effective as stock or market analysis.

EFTPOS *Abbreviation for* electronic funds transfer at point of sale.

EGM *Abbreviation for* extraordinary general meeting.

eighth directive A directive approved by the Council of the EC (now the EU) in 1984. The directive concerns auditing and the regulation of auditors.

Elective resolution A form of resolution for private companies introduced by the Companies Act (1989). It can be passed by the members in general meeting, if at least 21 days' notice in writing has been given, providing the terms of the resolution, and it is passed by all members entitled to attend and vote, whether in person or by proxy. A copy of the resolution must be filed at Companies House; its effect ceases if the company is re-registered as a public company. An ordinary resolution can be passed to revoke an elective resolution and such a resolution must also be filed at Companies House. An elective resolution may be used in five specified situations concerning:

1. the directors' authority to allot shares;
2. dispensing with the laying of accounts in a general meeting;
3. dispensing with the annual general meeting;
4. the appointment of auditors;
5. the holding of extraordinary general meetings.

Electronic data interchange (EDI) The exchange of data between organizations by electronic means rather than by paper. Its principal benefit is that it is faster.

Electronic data processing (EDP) The processing of data by electronic means rather than manually or by mechanical means. Most organizations are now computerized and keep their accounts on EDP systems.

Electronic funds transfer at point of sale (**EFTPOS)** The automatic debiting of a purchase price from the customer's bank or credit-card account by a computer link between the checkout till and the bank or credit-card company. The system is used by most large reputable UK retailers and also operates in Scandinavia and many parts of Europe. The system depends on a magnetic strip on the customer's plastic card, which is 'swiped' through a terminal reader machine at the point of sale. This gives authorization and prints a voucher for the customer to sign. Transfer of funds to the retailer can take place within 48 hours.

Electronic funds transfer Is a payment executed through computers.

Electronic mail The transfer of correspondence, such as letters and memos, from one computer to another. The computers are connected by cables or telephone lines (using a modem). Often a central computer acts as a post office, providing each user with a space in its memory, called a **mailbox,** where messages can be left. The users periodically contact the mailbox to check for messages.

Electronic office (**paperless office**) An office that has been computerized; i.e. traditional methods have been replaced by electronic ones. For example, wordprocessing packages have replaced typewriters, spreadsheet packages have replaced manual accounts, and electronic mail has replaced paper mail.

Electronic transfer of funds (**ETF)** The transfer of money from one bank account to another by means of computers and communications links. Banks routinely transfer funds between accounts using computers; another variety of ETF is the telebanking service enabling the Viewdata network to be used for banking in a customer's home.

Elements of cost The classification of costs in a production process into the primary elements of material, labour, and expenses.

Eligible paper 1. Treasury bills, short-dated gilts, and any first-class security, accepted by a British bank or an accepting house and thus acceptable by the Bank of England for rediscounting, or as security for loans to discount houses. The Bank of England's classification of eligible paper influences portfolios because of the ability to turn them into quick cash, and thus reinforces the Bank's role as lender of last resort.

2. Acceptances by US banks available for rediscounting by the Federal Reserve System.

Elimination Is the the act of removing a mathematical quantity by combining equations. This is common practice in accounting when consolidating financial reports; one example would be inter-company transactions, currency translations, and account balances.

Embedded audit facility A computer-assisted audit technique in which the program and additional data are provided by the auditor and incorporated into the computerized accounting system of the client. This facility enables a continuous review of a client's computerized accounting system to be made. The two most common types of embedded audit facility are an integrated test facility and the use of a systems control and review file. **emergency tax code** An income tax code issued by the Inland Revenue in the event of an employee not having the correct code available for the employer to apply to earnings under PAYE. The code gives the basic personal allowance, but does not allow for any further allowance, e.g. the married-couples allowance. This code is used until the correct code has been notified to the employer by the Inland Revenue.

Embedded Control performance deals with unexpected changes to data.

Embezzlement Is the fraudulent appropriation of funds or property entrusted to your care but actually owned by someone else.

Emc (export management company) Is a private company that serves as the export agent for manufacturers, being paid by commission or retainer. Merchandise is not normally purchased by the EMC.

Emerging issues task force (EITF) Was formed in 1984 in response to the recommendations of the FASB's task force on timely financial reporting guidance and an FASB Invitation to Comment on those recommendations. The mission of the EITF is to assist the FASB in improving financial reporting through the timely identification, discussion, and resolution of financial accounting issues within the framework of existing authoritative literature.

Emi Is Equal Monthly Installments (finance/ business).

Emoluments Amounts received from an office or employment including all salaries, fees, wages, perquisites, and other profits as well as certain expenses and benefits paid or provided by the employer, which are deemed to be emoluments. *See also* directors' remuneration.

Emphasis of matter An optional paragraph in an auditor's report referred to by the Auditing Practices Committee in their standard 'The Audit Report' issued in April 1980. This paragraph was to be used if the auditor considered that information was adequately disclosed in the financial statements but that the reader's attention should be drawn to important matters in the financial statements to ensure that they would not be overlooked. The use of such a paragraph was intended to be rare and to be restricted to matters of emphasis in a separate paragraph. In May 1993 the Auditing Practices Board issued a new Statement of Auditing Standard, Auditors' Reports on Financial Statements, which does not include the option of an emphasis-of matter paragraph.

Employee Benefit Plan Compensation arrangement, generally in writing, used by employers in addition to salary or wages. Some plans such as group term life insurance, medical insurance and qualified retirement plans are treated favorably under the tax law. Most common qualified retirement plans are: (1) defined benefit plans a promise to pay participants specified benefits that are determinable and based on such factors as age, years of service, and compensation; or (2) defined contribution plans provide an individual account for each participant and benefits based on items such as amounts contributed to the account by the employer and employee and investment experience. This type includes profit-sharing plans, employee stock ownership plans and 401(k) plans.

Employee report A simplified version of the statutory annual report and accounts of a company prepared for the employees of the company (*see* annual accounts). Although this is a voluntary practice, such documents should comply with section 240 of the Companies Act relating to nonstatutory accounts. Employee reports have been published by some companies since the beginning of the century; the 1930s and 1970s were periods during which employee reports were very popular.

Employee share ownership plan (ESOP) A method of providing the employees of a company with shares in the company. The ESOP buys shares in its sponsoring company, usually with assistance from the company concerned. The shares are ultimately made available to the employees, usually directors, who satisfy certain performance targets. The advantage claimed for ESOPs is that they do not involve dilution of the sponsoring company's share capital by the creation of new shares.

Employee Stock Ownership Plan (ESOP) Stock bonus plan of an employer that acquires securities issued by the plan sponsor.

Employment costs The expenditure incurred in employing personnel. It includes salaries, wages, bonuses, incentive payments, employer's National Insurance contributions, and employer's pension scheme contributions.

Employment report A report that was recommended to be included with the annual financial report of a company in the 1970s. The report should include details of numbers of employees, their age and sex, where they are based, the costs of employing them, and the health and safety measures undertaken.

Encryption The coding of text when it cannot be transmitted in plain language for security reasons. On receipt it must be decoded to its original form.

Encumbered Is when an asset is owned by one party subject to the legal claims of another party. One example is a homeowner that owns a home that is subject to (encumbered by) the claims of the mortgage holder.

Encumbrance Is a) a right or interest in land owned by someone other than the owner of the land itself; examples include easements, leases, mortgages, and restrictive covenants; or, b) in accounting, an encumbrance is an anticipated expenditure, or funds restricted for anticipated expenditures, such as for outstanding purchase orders.

Ending inventory Is inventory at the end of the accounting period.

End-of-day sweep An automatic transfer of funds from one bank account held by a company to another of its bank accounts, usually one that pays interest on deposits. The sweep takes place at the end of every day, or at the end of the day when certain conditions are met, for instance that the cleared value exceeds £50,000 in one of the accounts.

Endorsement A written agreement modifying a standard insurance policy to meet certain conditions or to complete a policy.

Endowment Is a permanent fund where gifts to the fund are held in perpetuity and where earnings are used in accordance with the donor's specified wishes.

Energy cost The expenditure on all the sources of energy required by an organization; these can include electricity, gas, solid fuels, oil, and steam.

Engagement Completion Document A document whereby the auditor identifies all significant findings or issues. The document should be as specific as necessary in the circumstances for a reviewer to gain a thorough understanding of the significant findings or issues.

Engagement letter A letter that represents the understanding about the engagement between the client and the CPA. The letter identifies the financial statements and describes the nature of procedures to be performed. It includes an explanation of the objectives of the procedures, an explanation that the financial information is the responsibility of the company's management, and a description of the form of report.

Engineered costs Are those costs having a clear linkage to output, e.g., direct materials costs.

Enrolled agent Is any individual who is enrolled under the provisions of Treasury Department Circular No. 230 to practice before the IRS.

Enterprise fund An organization, such as a government-owned utility, that provides goods or services to the public for a fee that makes the organization self-supporting.

Enterprise investment scheme (EIS) An investment scheme that replaced the business expansion scheme (BES) on 1 January 1994. Relief is available under the scheme when eligible shares are issued to an individual on subscription. The company issuing the shares must be engaged in a qualifying business activity and the money raised through the EIS must be used wholly for that purpose. The tax relief available on a qualifying EIS investment is 20% of the amount subscribed. This contrasts with the relief given under the BES, in which a higher-rate taxpayer received full tax relief.

Enterprise Is an organization created for business ventures.

Enterprise resource planning (ERP) Is an information system or process that integrates all operational data and related applications for an entire enterprise. ERP systems permit organizations to manage resources across the enterprise.

Enterprise value (EV) Is a measure of a company's value. Enterprise value is calculated by: market capitalization plus debt and preferred shares minus cash and cash equivalents. In effect, enterprise value is the theoretical takeover price, i.e., in the event of a buyout an acquirer would have to take on the company's debt but would pocket its cash.

Enterprise zone Is a depressed neighborhood, usually in an urban area, where businesses are given tax incentives and are not subject to some government regulations. These advantages are designed to attract new business in the zone.

Entity An organization for which the annual report and accounts is prepared (see annual accounts). For most accounting purposes it is regarded as a body corporate, partnership, or an incorporated association carrying on a trade or business with or without a view to profit. entity view The view of an accounting entity that emphasizes the importance of the business or the organization and its separateness from its owners. It is based on the accounting equation, in which the sum of the assets is equal to the claims on these assets by owners and others. *Compare* proprietary view; residual equity theory.

Entity assumption Is the assumption that financial statements are prepared for an entity that is separate and distinct from its owners.

Entity boundary Is that which is legally included within or excluded from a defined entity.

Entity concept Is the concept that financial accounting and reporting relates only to the activities of a specific business entity and not to the activities of the owners of that entity.

Entity theory Is where a legal entity is regarded as having a separate existence from the owners. The financial statements are prepared from the perspective of the entity, not its owners.

Entity, In business, is a separate or self-contained existence that provides goods or services.

Entrepreneur Is the person who assumes the financial risk of the initiation, operation and management of a given business or undertaking. He/She is primarily a financial and/or professional risk taker almost to the extreme.

Entry A record made in a book of account, register, or computer file of a financial transaction, event, proceeding, etc.

Entry value The current replacement cost of an asset. This value may be used in current-value accounting. *Compare* exit value.

Environment audit (green audit) An audit of the impact of the activities of an organization on the environment. Its purpose is usually to ensure that the organization has clear environmental policies, that its operations comply with the stated environmental policies, and that its policies are subject to regular review. Environmental audits may be conducted internally or externally by environmental consultants.

Environment The control environment is the attitude, awareness, and actions of the board, management, owners, and others about importance of control. It includes integrity and ethical rules, commitment to competence, board or audit committee participation, organization structure, assignment of authority and responsibility, and human resource policies and practices.

Eom Is End of Month.

Eoy Is End Of Year.

Eoz Is Environmental Opportunity Zones.

Equipment loan Is a loan used for the purchase of capital equipment.

Equipment trust certificate A document setting out the details of a loan used to fund the purchase of equipment. The holder of the certificate has a secured interest in the asset in the event of a corporate default.

Equitable apportionment The process of sharing common costs between cost centres in a fair manner, using a basis of apportionment that reflects the way in which the costs are incurred by the cost centres.

Equity Account Account in the equity section of the balance sheet. Includes capital stock, additional paid in capital and retained earnings.

Equity accounting Is the practice of showing in a company's accounts the share of undistributed profits of another company in which it holds equity ownership (usually below 50%). The share of profit shown is usually equal to its share of the equity in the other company. The profit may not actually be paid over, but the equity holding company has a right to this share of the undistributed profit.

Equity capital Is a form of financing where equity in a business is sold to private investors.

Equity dilution A reduction in the percentage of the equity owned by a shareholder as a result of a new issue of shares in the company, which rank equally with the existing voting shares.

Equity dividend cover A ratio that shows how many times the dividend to ordinary shareholders can be paid out of the profits of a company available for distribution. The higher the cover, the greater the certainty that dividends will be paid in the future.

Equity finance Finance raised from shareholders in the form of ordinary shares and reserves, as opposed to non-equity shares and to debt finance.

Equity financing Is a method of an entity obtaining funds by issuing either common or preferred stock, or both. Receipts can be through cash, services, or property. It is in the entities best interest to issue shares when the market price for the stock is at its highest.

Equity fund Is a mutual fund whose portfolio consists primarily of common stocks.

Equity holding Is a holding of the nominal share capital in a company where the shareholding entitles the shareholder to a right to votes, to profits available for distribution to shareholders and to assets available for distribution on a winding up of that company. A holding of shares held as trading stock for the purpose of a trade does not constitute a participating holding.

Equity instrument Covers any share (or part thereof) in the equity share capital of a company (or a comparable member's interest in a close corporation). The term also includes share options and any other financial instrument convertible into a share (such as a convertible debenture).

Equity instruments An instrument, including non-equity shares, warrants, and options that provide evidence of an ownership interest in an entity.

EQUITY METHOD is a method of accounting for investments in *associated companies*.

Equity Method of Accounting Investors cost basis is adjusted up or down (in proportion to the % of stock ownership) as the investee's retained earnings fluctuation; used for long-term investments in equity securities of affiliate where holder can exert significant influence; 20% ownership or greater is arbitrarily presumed to have significant influence over the investee.

EQUITY MULTIPLIER (EM) shows the amount of assets owned by the firm for each equivalent monetary unit owner claims held by stockholders, i.e., the equity multiplier measures how many dollars of assets an institution supports with each dollar of capital. If a firm is totally financed by equity, the equity multiplier will equal 1.00, while the larger the number the more highly leveraged is the firm. EM compares assets with equity: large values indicate a large amount of debt financing relative to equity. EM, thus, measures financial leverage and represents both profit and risk measurement. EM affects a firm's profit because it has a multiplier impact on Return on Assets (ROA) to determine the firm's Return on Equity (ROE). EM is also a risk measure because it reflects how many assets can go into default before a company becomes insolvent. The EM ratio is best compared to industry averages.

Equity Residual interest in the assets of an entity that remains after deducting its liabilities. Also, the amount of a business' total assets less total liabilities. Also, the third section of a balance sheet, the other two being assets and liabilities.

Equity Securities Capital stock and other securities that represent ownership shares, or the legal rights to purchase or acquire capital stock.

Equity share Any share in a company, other than a non-equity share.

Equity share capital Is capital raised by an entity through the sale of common shares.

Equity-to-asset ratio Expresses the proportion of total assets financed by the owner's equity capital. It is the reciprocal of the debt-to-asset ratio.

Equivalent unit of production (EPU) Is based on the idea that if 100 units are all 40% complete, then 40 whole units could have been completed.

Equivalent units (effective units) Unfinished units of production that remain in a process at the end of a period as work in progress (or process). Degrees of completion are assigned to each cost classification, which, when applied to the number of units in work in progress, give an equivalent number of completed units. For example, if the number of units of work in progress is, say, 3000 units to the following degrees of completion, the effective units are given in the table.

Equivalent-units (units)	*Cost-classification*	*Work in -*	*Degrees of progress*
Completion (%)	Direct materials	Direct labour	Overheads 3000
3000	3000	3000	50
	100	50	
	1500	1500	

The equivalent units have an impact on the valuation of opening and closing work in process.

Erisa, In the U.S., refers to the Employee Retirement Income Security Act of 1974. ERISA is a major U.S. law which guarantees certain categories of employees a pension after some period at their employer; there had been more ambiguity before about what rules an employer could put on which employees could get a pension.

ERM *Abbreviation for* Exchange Rate Mechanism.

Erp Can mean either Enterprise Resource Planning or Early Retirement Program.

Error Act that departs from what should be done; imprudent deviation, unintentional mistake or omission.

Error of omission Is an error which occurs as a result of an action not taken. In accounting, the error occurs when both the entries required for a transaction are completely omitted from the books.

Error of original entry, In accounting, occurs when the double entry is made but using an incorrect figure.

Error of principle, In accounting, occurs when one or both of the entries are made in the wrong class or category of account.

Error or mistake A claim by the taxpayer that there has been an overpayment of tax. A formal claim has to be made within six years against the overassessment to income tax or capital gains tax resulting from an error or mistake in, or omission from, any return or statement.

Error Unintentional misstatements or omissions in financial statements. Errors may involve mistakes in gathering or processing accounting data, incorrect estimates from oversight or misinterpretation of facts, and mistakes in application of principles relating to amount, classification, presentation or disclosure.

Escalation 1. Additional rent payments owed by a tenant based on the increase in the costs of operating the building.

2. A clause in a purchase contract providing for upward adjustment of the contract price if specified contingencies occur.

Escheat Is the reversion of property to the state (government) in the absence of legal heirs or claimants.

Escrow Money or property put into the custody of a third party for delivery to a GRANTEE, only after fulfillment of specified conditions.

ESOP *Abbreviation for* employee share ownership plan.

Estate Is the entire group of assets owned by an individual at the time of his or her death. The estate includes all funds, personal effects, interests in business enterprises, titles to property-real estate and chattels, and evidences of ownership such as stocks, bonds and mortgages owned, notes receivable, etc. All claims against an estate must be duly filed with the Executor or Administrator of the estate, and approved by the court of law under which the will is being probated or the line of heritage is being determined before the indebtedness may be satisfied.

Estate Tax Tax on the value of a decendent's taxable estate, typically defined as the decedent's assets less liabilities and certain expenses which may include funeral and administrative expenses.

Estate taxes Are the Federal taxes levied on the transfer of property from the deceased to his or her heirs, legatees or devisees.

Estimated assessment A tax assessment raised by the Board of Inland Revenue based on the estimated profits or income of a taxpayer. The level of profits from the assessment of the previous period is often used as a rough indication of the expected profits for the assessment under consideration. The taxpayer has 30 days to appeal against the assessment. An estimated assessment will be revised once the actual profits or income for the fiscal year in question are known. Under self-assessment, estimated assessments are not normally raised.

Estimated Tax Amount of tax liability a taxpayer may expect to pay for the current tax period. Usually paid through quarterly installments.

Estimation Sampling is sampling to estimate the actual value of a population characteristic within a range of tolerable misstatement.

Estimation Transactions Activities that involve management judgments or assumptions in formulating account balances in the absence of a precise means of measurement.

Etc (export trading company) Is a private company that usually purchases items from domestic manufacturers, then sells them to foreign markets. The difference between an EMC and an ETC is sometimes insignificant, i.e., an EMC may occasionally take title of goods, while an ETC may sometimes work strictly on commission without purchasing the goods. The difference is what the company *normally* does.

Ethical investment (socially responsible investment) An investment made in a company not engaged in an activity that the investor considers to be unethical, such as armaments or tobacco, or an investment in a company of which the investor approves on ethical grounds, e.g. one having a good environmental or employment record.

Ethical standards, In accounting, is a written document containing basic principles and essential procedures together with related guidance in the form of explanatory and other material.

Ethics, In business, are moral and professional principles.

Euro A new currency introduced into the European Union on 1 January 1999. Sweden, Denmark, Greece, and the UK decided not to join at the time of the launch. The remaining 11 countries agreed to link their own currencies to the euro from 1 January 1999 to 31 December 2001. The national currencies continue to be traded alongside the euro and non-cash payments may be made in the euro. Cash payments can, however, only be made in the national currency during that period. Euro notes and coins are planned to be introduced from 1 January 2002 to 30 June 2002, after which the euro will be the only currency in which payments can be made.

Eurobanks Financial intermediaries that deal in the eurocurrency market.

Eurobond A bond issued in a eurocurrency, which is now one of the largest markets for raising money (it is much larger than the UK stock exchange). The reason for the popularity of the eurobond market is that secondary market investors can remain anonymous, usually for the purpose of avoiding tax. For this reason it is difficult to ascertain the exact size and scope of operation of the market. Issues of new eurobonds normally take place in London, largely through syndicates of US and Japanese investment banks; they are bearer securities, unlike the shares registered in most stock exchanges, and interest payments are free of any withholding taxes. There are various kinds of eurobonds. An ordinary bond, called a straight, is a fixedinterest loan of 3 to 8 years duration; others include floating-rate notes, which carry a variable interest rate based on the London Inter Bank Offered Rate; and perpetuals, which are never redeemed. Some carry warrants and some are convertible.

Euroclear One of two settlement houses for the clearance of eurobonds. Based in Brussels, it was set up in 1968 by a number of banks. The other settlement house is Centrale de Livraison de Valeurs Mobilières.

Euro-commercial paper (ECP) Commercial paper issued in a eurocurrency, the market for which is centred in London. It provides a quick way of obtaining same-day funds by the issue of unsecured notes, for example in Europe for use in New York.

Eurocurrency A currency held in a European country other than its country of origin. For example, dollars deposited in a bank in Switzerland are eurodollars, yen deposited in Germany are euroyen, etc. Eurocurrency is used for lending and borrowing; the eurocurrency market often provides a cheap and convenient form of liquidity for the financing of international trade and investment. The main borrowers and lenders are the commercial banks, large companies, and the central banks. By raising funds in eurocurrencies it is possible to secure more favourable terms and rates of interest, and sometimes to avoid domestic regulations and taxation. Most of the deposits and loans are on a short-term basis but increasing use is being made of medium-term loans, particularly through the raising of eurobonds. This has to some extent replaced the syndicated loan market, in which banks lent money as a group in order to share the risk. Euromarkets emerged in the 1950s.

Eurodollars Dollars deposited in financial institutions outside the USA. The eurodollar market evolved in London in the late 1950s when the growing demand for dollars to finance international trade and investment coincided with a greater supply of dollars. The prefix 'euro' indicates the origin of the practice but it now refers to all dollar deposits made anywhere outside the USA.

Euroization Is the use of the euro by a country as its own currency; the linking of a currency's value to that of the euro; or, the use of the euro for accounting purposes.

Euromarket 1. A market that emerged in the 1950s for financing international trade. Its principal participants are commercial banks, large companies, and the central banks of members of the EU. Its main business is in eurobonds, euro-commercial paper, euronotes, and euroequities issued in eurocurrencies. The largest euromarket is in London, but there are smaller ones in Paris, Brussels, and Frankfurt.

2. The European Union, regarded as one large market for goods.

Euronote A form of euro-commercial paper consisting of short-term negotiable bearer notes. They may be in any currency but are usually in dollars or ecus. The euronote facility is a form of note issuance facility set up by a syndicate of banks, which underwrites the notes.

European currency unit (ECU) A currency medium and unit of account created in 1979 to act as the reserve asset and accounting unit of the European Monetary System. The value of the ECU is calculated as a weighted average of a basket of specified amounts of European Union (EU) currencies; its value is reviewed periodically as currencies change in importance and membership of the EU expands. It also acts as the unit of account for all EU transactions. It has some similarities with the Special Drawing Rights of the International Monetary Fund; however, ECU reserves are not allocated to individual countries but are held in the European Monetary Cooperation Fund. Private transactions using the ECU as the denomination for borrowing and lending have proved popular.

European monetary system (EMS) A European system of exchange-rate stabilization involving the countries of the European Union. There are two elements: the Exchange Rate Mechanism (ERM), under which participating countries commit themselves to maintaining the value of their currencies within agreed narrow limits, and a balance of payments support mechanism, organized through the European Monetary Cooperation Fund. The ERM is generally regarded as having helped to maintain exchange-rate stability and to have encouraged the coordination of macroeconomic policy. It operates by giving each currency a value in ECUs and drawing up a parity grid giving exchange values in ECUs for each pair of currencies. If market rates differ from this parity by more than a permitted percentage (currently 2.25%), the relevant governments have to take action to correct the disparity. The ultimate goal of the EMS is controversial: to some its function is to facilitate monetary cooperation; to others, it is the first step towards a single European currency and European Monetary Union (EMU) with a European central bank. In 1992 the ERM failed and the Italian, British, and Spanish governments were unable to support their currencies above their floor values; they then had to be allowed to float, enabling critics of the EMS to claim that the system was flawed and that EMU was therefore unattainable.

European option An option that can only be exercised on its expiry date. *Compare* American option.

EV (economic value) Is the value of an asset deriving from its ability to generate income.

EV *Abbreviation for* expected value.

Event of default A critical clause in a loan agreement, the breaching of which will make the loan repayable immediately. The breaching of any covenant clause will be an event of default. Events of default also include failure to pay, failure to perform other duties and obligations, false representation and warranty, material adverse change, bankruptcy, and alienation of assets.

Event risk Is the risk that the ability of an issuer to make interest and principal payments will change because of rare, discontinuous, and very large, unanticipated changes in the market environment such as (1) a natural or industrial accident or some regulatory change or (2) a takeover or corporate restructuring.

Events accounting A method of accounting in which data is stored and reported in respect of particular events rather than being classified chronologically or in any other way.

Evidence (evidential matter) Includes written and electronic information (such as checks, records of electronic fund transfers, invoices, contracts, and other information) that permits the auditor to reach conclusions through reasoning.

Evidential Matter Underlying accounting data and other corroborating information that support the financial statements.

Ex- (Latin: without) A prefix used to exclude specified benefits when a security is quoted. A share is described as ex-dividend (xd or ex-div) when a potential purchaser will no longer be entitled to receive the company's current dividend, the right to which remains with the vendor. Government stocks go ex-dividend 36 days before the interest payment. Similarly, exrights, ex-scrip, ex-coupon, ex-capitalization (ex-cap), and ex-bonus mean that each of these benefits belongs to the vendor rather than the buyer.

Ex ante (Latin) Before the event. The phrase is used, for example, of a budget that is prepared as an estimate and subsequently compared with actual figures. *Compare* ex post.

Ex gratia pensions A pension paid by an employer although there is no legal, contractual, or implied commitment to provide it.

Ex Is not including or without, e.g. a stock price ex dividend. In business: free of any transport or handling charges incurred before removal from a given location, e.g., bought the goods ex warehouse.

Ex post (Latin) Short for *ex post facto:* after the event. This abbreviation is used, for example, to refer to the collection of financial data for transactions after they have been effected. *Compare*ex ante.

Ex-all means that all benefits belong to the vendor. Cum- (Latin: with) has exactly the opposite sense, meaning that the dividend or other benefits belong to the buyer rather than the seller. The price of a share that has gone ex-dividend will usually fall by the amount of the dividend, while one that is cumdividend will usually rise by this amount. However, in practice market forces usually mean that these falls and rises are often slightly less than expected.

Examination Is evaluating the preparation of prospective statements, support underlying assumptions, and presentation. The accountant reports whether, in his or her opinion, the statements conform to AICPA guidelines and assumptions provide a reasonable basis for the responsible party's forecast. The accountant should be independent, proficient, plan the engagement, supervise assistants, and obtain sufficient evidence to provide a reasonable basis for the report.

Examine (examining) As an audit procedure, to examine something is to look at it critically.

Except for A qualified opinion. An auditor can qualify the audit opinion for both departures from U.S. GAAP in the financial statements and restrictions on the scope of the audit. The opinion paragraph of the qualified report is worded "In our opinion, except for..."

Exceptional items Are material items which derive from events or transactions that fall within the ordinary activities of the reporting entity and which individually or, if of a similar type, in aggregate, need to be disclosed by virtue of their size or incidence if the financial statements are to give a true and fair view.

Excess Liability Insurance A policy that covers losses that exceed those covered under another policy. For example, your regular policy covers losses up to $300,000. You purchase an excess liability policy that covers losses from $300,000 to $2,000,000. In effect, an excess liability policy is one with a very high deductible. Also known as an *umbrella* policy.

Excess of revenue over expenses in the not-for-profit sector. There is a common misconception that not-for-profit organizations are not allowed to have a financial cushion as they are "not-for-profit". In this context it is useful to remember that not-for-profit organizations are also "not-for-loss" organizations. An organization cannot sustain losses over the long term without ceasing to operate or going bankrupt. Excess of revenue over expenses is the planned financial position that there will always be a sufficient amount of funds on hand to continue to run the not-for-profit entity for some period without additional funding; usually 3-4 months.

Exchange control Restrictions on the purchase and sale of foreign exchange. It is operated in various forms by many countries, in particular those who experience shortages of hard currencies; sometimes different regulations apply to transactions that would come under the capital account of the balance of payments. There has been a gradual movement towards dismantling exchange controls by many countries in recent years.

Exchange gain or loss A gain or loss resulting from an exchange-rate fluctuation arising from the conversion of other currencies into the domestic currency.

Exchange Is a. a workplace for buying and selling; open only to members, e.g. New York Stock Exchange; or, b. reciprocal transfer of equivalent sums of money especially the currencies of different countries, e.g. foreign exchange markets.

Exchange rate Is the rate at which one currency can be traded for another.

Exchange rate risk, In foreign exchange, is the variability of a firm's value due to uncertain changes in the rate of exchange.

Excise duty A tax charged on the production of certain items, the most popular being petrol, alcoholic drinks, and tobacco products. It is also charged on betting and gaming and on certain activities requiring an excise licence, such as using a motor vehicle.

Excise tax Is a tax imposed by federal, state, and local governments on an act, occupation, privilege, manufacture, sale, or consumption that is not deductible (e.g., tobacco, gasoline and spirits). This term is in increasing usage to describe almost every tax other than income tax and property tax.

Exclusion of subsidiaries from consolidation Subsidiary undertakings may be excluded from consolidation on the following grounds:

1. an individual subsidiary may be excluded from consolidation if its inclusion is not material for the purpose of giving a true and fair view;

2. an individual subsidiary may be excluded from consolidation for reasons of disproportionate expense in respect of its value (*see* disproportionate expense and undue delay);

3. if severe long-term restrictions substantially hinder the exercise of the rights of a parent company over the assets or the management of an undertaking, it may be excluded from consolidation;

4. if the interest in a subsidiary undertaking is held with a view to resale, and has not previously been included in the consolidated accounts prepared by the parent company, that subsidiary may be excluded from consolidation;

5. a subsidiary undertaking may be excluded from consolidation if its activities are so different from those of the other group undertakings that its inclusion would be incompatible with the obligation to give a true and fair view. Such exclusion does not arise merely because some of the undertakings are industrial, some commercial, and some provide different services (*see* dissimilar activities).

Execute (execution) To carry out an internal control procedure, such as to sign and mail a check after inspecting supporting documents.

Executive director A director of a company who has management responsibilities for the day-to-day activities of the business. *Compare* nonexecutive director.

Executive share option scheme An approved share option scheme that entitles a specified class of directors or employees to purchase shares in the company in which they are employed. Strict conditions need to be met in order to receive Inland Revenue approval for such a scheme. Once achieved there are no income tax charges on the grant or exercise of the option or on the growth in value of the shares. The only charge will be to capital gains tax when the shares are sold.

EXECUTOR Is a legal entity, frequently an individual, known before death to a testator, who is named in the testator's will to carry out the desires of the deceased after his death as designated in the will. Executors must be approved by the court of law probating the will. An executor pays all indebtedness as claimed by creditors of the estate, with the approval of the court of law, and then carries out or executes the will according to the terms set forth by the testator.

Exempt Is being freed from or not subject to an obligation, liability, tax, etc.; excused. Examples: exempt gifts or tax-exempt bonus.

Exempt Organization Organization which is generally exempt from paying federal income tax. Exempt organizations include religious organizations, charitable organizations, social clubs, and others.

Exempt private company A family company that was exempt from filing its financial statements with the Registrar of Companies. The exempt private company was created by the Companies Act (1948) and abolished by the Companies Act (1967). The small companies and medium-sized companies' filing exemptions replace it to some extent.

Exempt supplies Supplies of goods or services in the categories of items that are identified as exempt from value added tax, as given in the Value Added Tax Act (1994). The main categories are: land (including rent), financial services, postal services, betting, charities (except on their business activities), education (non-profitmaking), health services, burial and cremation.

Exempt transfers Transfers resulting in no liability to inheritance tax. These are:

gift to pouse,

normal expenditure out of income, small gifts, up to £250, to any number of individuals, a gift of up to £3000, marriage gifts, up to £5000 for each parent and £2500 for grandparents of the parties to the marriage, but limited to £1000 for other gifts inconsideration of marriage, gifts to charities, gifts for national purposes, gifts for public benefit, gifts to political parties, certain transfers to employee trusts.

Exemption Amount of a taxpayer's income that is not subject to tax. All individuals, trusts, and estates qualify for an exemption unless they are claimed as a dependent on another individual's tax return. Exemptions also are granted to taxpayers for their dependents.

Exemptions from preparing consolidated financial statements Under the Companies Act a parent company is not required to prepare group accounts for a financial year in which the group headed by that company qualifies as a small company or a medium-sized company. A group is not eligible for exemption if any member of the group is a public company or a body corporate that has power under its constitution to offer its shares or debentures to the public and may lawfully exercise that power; an authorized institution under the Banking Act (1987); an insurance company; or an authorized person under the Financial Services Act (1986). Under the Companies Act and Financial Reporting Standard 2, Accounting for Subsidiary Undertakings, a parent undertaking is exempt from preparing group accounts when it is itself a subsidiary of a parent company in the European Union and consolidated financial statements are prepared at the highest level. Also, a parent undertaking is exempt from preparing group accounts when all of its subsidiaries are excluded. *See*exclusion of subsidiaries from consolidation.

Exercise price (**strike price**) The price at which an option can be exercised.

Ex-factory Is where a seller's responsibility ends when the buyer at point of origin, i.e., factory, accepts merchandise. This can also be written as Ex-Warehouse, Ex-works, etc.

Existence Assertions about existence deal with whether assets or liabilities exist at a given date. For example, management asserts that finished goods inventories in the balance sheet are available for sale.

Existing use value (EUV) Is the price at which a property can be sold on the open market assuming that it can only be used for the existing use for the foreseeable future.

Existing use value The price at which a property can be sold on the open market assuming that it can only be used for the existing use and that there is vacant possession.

Exit charge The charge to inheritance tax made when an asset is taken out of a discretionary trust.

Exit value The net realizable value of an asset, i.e. its market price at the date of a balance sheet less the selling expenses. Exit values are effectively break-up values and are not consistent with the going-concern concept, which assumes that a business is continuing to trade. *Compare*entry value.

Expatriation Tax Individuals that loose or terminate their residency within the 10 year period immediately preceding the close of a tax year, if the termination or loss is for the sole purpose of avoiding tax.

Expectation Gap The difference in perception between the public and the CPA as a result of accounting and audit service.

EXPECTED ANNUAL CAPACITY Is the planned activity levels or output for a given year taking into account efficiency and idle capacity.

Expected deviations rate The extent of non-compliance with recognized control procedures that an auditor expects to find when performing compliance tests on a population or a sample of it.

Expected error The extent of the errors that an auditor expects to find when performing substantive tests on a population or a sample of it.

Expected monetary value (EMV) In decision making, the sum of the products of the outcomes in monetary terms and the probabilities of these outcomes arising. In decision trees subjective probability estimates are assigned to each possible outcome. In the EMV, the outcomes are expressed in terms of money. In the example given in the table, the EMV is 3900. *Compare*expected value.

Possible outcomes (£)	**Subjective probability (p)**	**Product (£ × p)**
3000		
0.5	0.3	0.2
1500	1200	1200
4000	6000	1.0

EMV = 3900

Expected standard A cost, income, or performance standard set in standard costing at a level that is expected to be achieved by the actual result.

Expected value (EV) In decision making, the sum of the products of the outcomes in quantitative terms, such as units of output or sales, weights, or volumes, and the probabilities of these outcomes arising. *Compare*expected monetary value.

Expected value of perfect information (EVPI) Is the difference between the expected value with (additional) perfect information and the expected value with current information. The expected value of perfect information is the maximum amount a decision maker should pay for additional information that gives a perfect signal as to the state of nature.

Expendable Is something that can be used and discarded without hurting the end product or the company's viability.

Expendable trust fund Is a governmental fiduciary fund held in a trustee capacity by a governmental agency that accounts for assets and activities restricted to a specific purpose in accordance to formal intent. The principal of the fund can be expended towards only the activity specified, e.g., Unemployment Compensation Fund, Employee Benefits Fund, etc.

Expenditure Is a cost incurred in the normal course of business to generate revenues.

Expenditure variance (**overhead expenditure variance**) An overhead variance arising in standard costing equal to the difference between the budgeted overhead allowance and the actual expenditure incurred. This overhead variance can be analysed into fixed overhead expenditure variance and variable overhead expenditure variance; it represents the amount by which the budgeted profits should be adjusted to account for the over- or under-spending on overheads.

Expense account 1. An account, opened in either the cost ledger or the nominal ledger, for each expenditure heading in which the costs of an organization are recorded before being totalled and transferred to the profit and loss account at the end of an accounting period. 2. The amount of money that certain staff members are allowed to spend on personal expenses in carrying out their activities for an organization.

Expense Is the amount of assets or services used during a period.

Expenses Are the daily costs incurred in running and maintaining a business.

Experience Rating System Insurance premiums in such a system are based on the insured's past experience.

Experienced Auditor An auditor that has a reasonable understanding of audit activities and has studied the company's industry as well as the accounting and auditing issues relevant to the industry.

Expired expense Is an expense having come to an end or become void after passage of a period of time.

Explanatory A paragraph added to an audit report to explain something, such as the reason for a qualified or adverse opinion.

Explicitly Fully and clearly expressed, leaving nothing implied.

Exploration Expenditures Unlimited deductions are allowed for a taxpayer's expenses incurred while searching for any ore or mineral deposit (except oil or gas).

Exploratory research Is a method used when gathering primary information for a market survey where targeted consumers / customers are asked very general questions geared toward eliciting a lengthy answer.

Export broker Is an entity that brings together foreign buyers with domestic manufacturers for a fee, generally providing little other services. An EMC, who is also a middleman, often provides extensive services to complete the transaction as well.

Export credits guarantee department (**ECGD**) A government department that offers credit insurance to exporters. Certain sections of the ECGD were privatized in 1991, including short-term credit insurance.

Export declaration Is the official paperwork required of exporters so trade transactions and goods can be tracked.

Export license Is the governmentally issued legal permit to export merchandise. In the U.S., it is either a general license requiring no additional paperwork or a validated license for certain federally controlled items.

Exposure Draft Document issued by the american institute of certified public accountants (aicpa), financial accounting standards board (FASB), governmental accounting standards board (GASB) or other standards setting authorities to invite public comment before a final pronouncement is issued.

Exposure, Generally, is the extent to which a product is kept in the public eye through the press, radio, television, and public appearances. In finance, exposure refers to the amount that a business or person can lose. For example: in foreign exchange, it refers to the degree to which a company is affected by exchange rate changes.

Expropriation Is the taking of property or rights by governmental authority such as eminent domain, possibly including an emergency situation, such as taking a person's truck or bulldozer to build a levee during a flood. In such a case just compensation eventually must be paid to the owner, who can make a claim against the taker.

Extend means to multiply One number by another (to test extensions is to test the accuracy of multiplication done by the client). To extend audit procedures is to apply additional audit procedures to obtain more evidence.

Extended trial balance A trial balance that gives a vertical listing of all the ledger account balances with three additional columns for adjustments, accruals, and prepayments, and a final two columns (each containing a debit and a credit side) that show the entries in the profit and loss account and the balance sheet.

Extendible bond issue A bond, the maturity of which can be extended at the option of all the parties.

Extension Time granted by a taxing authority, such as the internal revenue service (IRS), a state or city, which allows the taxpayer to file tax returns later than the original due date.

Extent of Tests of Control Each year the auditor must obtain sufficient evidence about whether the company's internal control over financial reporting, including the controls for all internal control components, is operating effectively.

External audit Is an audit conducted by an individual of firm that is independent of the company being audited. These independent auditors audit the books of a company generally once per year (see INTERIM AUDIT) after the completion of the company's fiscal year. Their role is to give an opinion of the financials statement's reflection of the status and operations of the company being audited. Based on what they witness during the audit they will also produce, for management and board utilization, a management letter. Although a financial statement audit is the most common type of external audit, external auditors may also conduct special purpose audits which might include; performing specific tests and procedures and reporting on the results, a less intensive review, and compilations.

External auditor Is an auditor, usually working for an audit firm, that is completely independent of the company it is auditing. External auditors should always be certified by a professional association of accountants, and should be selected by, and report to, the corporation's board of directors.

External economies and diseconomies arise from the effects of a firm's expansion on market conditions and on technological advance.

External Is from or between other countries, e.g. external commerce; or, happening, arising or located outside or beyond a company, e.g. external influences.

External Reporting Reporting to stockholders and the public, as opposed to internal reporting for management's benefit.

Extra Risk An insured that does not fall within the standard risk range. Insurance can only be obtained for a higher than normal premium or with less coverage.

Extra-Expense Insurance A policy that pays for any extraordinary expenses incurred to keep a business in operation after a loss caused by an insured peril.

Extraordinary general meeting (EGM) Any general meeting of a company other than the annual general meeting. Most company's articles give the directors the right to call an EGM whenever they wish. Members have the right to requisition an EGM if they hold not less than 10% of the paid-up share capital; a resigning auditor may also requisition a meeting. Directors must call an EGM when there has been a serious loss of capital. The court may call an EGM if it is impracticable to call it in any other way. Those entitled to attend must be given 14 days' notice of the meeting (21 days if a special resolution is to be proposed).

Extraordinary Items Events and transactions distinguished by their unusual nature and by the infrequency of their occurrence. Extraordinary items are reported separately, less applicable income taxes, in the entity's statement of income or operations.

Extraordinary resolution A resolution submitted to a general meeting of a company; 14 days' notice of such a resolution is required, and the notice should state that it is an extraordinary resolution. 75% of those voting must approve the resolution for it to be passed.

Extrapolation Estimating unknown quantities that lie outside a series of known values. *Compare*interpolation.

Extra-statutory concession A concession made by the Board of Inland Revenue to taxpayers, which is usually followed in practice but which is not specified in the tax legislation.

F

F&A Is Facilities and Administrative Costs (aka Indirect Costs or Overhead), Fabrication & Assembly, Finance & Administration, or Finance & Accounting.

F.A.S. (FREE ALONG SIDE), e.g. *"F.A.S. New York"*, Means that, for instance, if goods are shipped from the State of Nevada in the U.S. to Madrid, Spain, no charges for shipment are made to the importer until the goods are "free alongside the vessel" in New York. After this point, charges may be applied to the importer.

F.o.b. (free on board) I a transportation term that indicates that the price for goods includes delivery at the seller's expense to a specified point and no further. The FOB term is used with an identified physical location to determine 1) the responsibility and basis for payment of freight charges, and 2) the point a twhich title for the shipment passes from seller to buyer.The FOB location terms, Origin and Destination, may be qualified by modifiers. The modifier determines the payment of the transportation charges. Modifiers denote nothing about the title of the goods or filing of claims. The most three common modifiers are: Collect, Prepaid & Add, and Prepaid & Allow. Collect: The carrier collects the transportation charges from the buyer. Prepaid & Add: The seller prepays the transportation charges, but adds the charges to the invoice for reimbursement from the buyer .Prepaid & Allow: The seller prepays the transportation charges and they are already included in the contract price.

F.o.b. destination Is where the seller retains title and control of goods until they are delivered and the contract of carriage has been completed. The seller selects the carrier and is responsible for the risk of transportation.

F.o.r. (free on railroad) Is where goods will be delivered by the exporter to a railway station. The importer is responsible from this point on.

Facility An agreement between a bank and a company that grants the company a line of credit with the bank. This can either be a committed facility or an uncommitted facility.

Factoring Is the practice of buying debt at a discount, e.g., if somebody owes you $10,000 payable within a year, a factoring lender may pay you $9,000 for the debt. You receive $9,000 cash quickly, but at the cost of the $1,000 discount.

Factors of production The resources required to produce economic goods. They are land (including all natural resources), labour (including all human work and skill), capital (including all money, assets, machinery, raw materials, etc.), and entrepreneurial ability (including organizational management skills, inventiveness, and the willingness to take risks).

For each of these factors there is a price, i.e. rent for land, wages for labour, interest for capital, and profit for the entrepreneur.

Factory costs (factory expenses) The expenditure incurred by the manufacturing section of an organization. Factory costs include direct materials, direct labour, direct expenses, and production overheads but not mark-up or profit.

Factory overhead Is the costs of operating a factory which cannot be assigned directly to a specific department or product.

Fair labor standards act Is a U.S. federal law that enforces a group of minimum standards that employers must abide by when hiring employees.

Fair market value Is the price at which a willing seller will sell and a willing buyer will buy, in an arms- length transaction, when neither is under compulsion to sell or buy and both have reasonable knowledge of relevant facts.

Fair value, Under GAAP, is the amount at which an asset could be bought or sold in a current transaction between willing parties, other than in liquidation. On the other side of the balance sheet, the fair value of a liability is the amount at which that liability could be incurred or settled in a current transaction between willing parties, other than in liquidation.

FAPA *Abbreviation for* Fellow of the Association of Authorized Public Accountants.

Favorable Variance Excess of actual Revenue over projected revenue, or actual costs over projected costs.

Fbwt, In finance, is Fund Balance With Treasury.

FCA *Abbreviation for* Fellow of the Institute of Chartered Accountants.

FCCA *Abbreviation for* Fellow of the Chartered Association of Certified Accountants.

Fcia (foreign credit insurance act) Is an EximBank program that offers credit insurance against losses due to political conflict or buyer default.

FCIS *Abbreviation for* Fellow of the Institute of Chartered Secretaries and Administrators.

FCMA *Abbreviation for* Fellow of the Chartered Institute of Management Accountants.

Fcpa, In Australia and elsewhere, is Fellow Certified Practicing Accountant.

FCT *Abbreviation for* Fellow of the Association of Corporate Treasurers.

Feasibility study An investigation to determine which of a range of decisions is likely to give a satisfactory return in a financial appraisal or economic appraisal of the alternatives.

Federal unemployment tax act (futa) Is a U.S, federal law providing guidelines for the unemployment compensation system. A Federal tax is paid by all liable employers to fund the administration of Federal and State unemployment insurance programs and the extended benefits program. FUTA provides for payments of unemployment compensation to workers who have lost their jobs. Most employers pay both a federal and a state unemployment tax.

Fee accountant Is an individual who performs manual or automated bookkeeping services and/ or maintains the official accounting records.

Fee simple Is absolute ownership of real property; owner is entitled to the entire property. This includes unencumbered right of disposition during his/her life and upon death the real property passes to his/her heirs. Also known as Fee Simple Absolute And Fee Absolute.

Fellow subsidiary One of two or more of the subsidiary undertakings in a group of companies that consists of a parent company and at least two subsidiaries.

FF&E Is Furniture, Fixtures & Equipment (in real estate).

Ffo - funds from operations Is used by real estate and other investment trusts to present the cash flow from trust operations i.e., earnings plus depreciation and amortization.

Fgar Is Florida Government Accountability Report.

FIAB *Abbreviation for* Fellow of the International Association of Bookkeepers.

FICA (Federal Insurance Contributions Act) Is the U.S. law requiring U.S. employers to match the amount of Social Security tax deducted from an employee's paycheck.

Fictitious asset Is debit balance includes on balance sheets as assets that do not conform to the definition of an asset. Intentional includes of assets known to be fictitious assets may be ruled as fraud.

Fictitious name Is often referred to as a DBA, "Doing Business As," a fictitious name is frequently used by sole proprietors or partnerships to provide a name, other than those of the owners or partners, under which the business will operate.

Fiddly Is requiring close attention to detail, i.e. to be fussy (primarily used in Great Britain).

Fidelity bond An insurance policy that provides cover against specified losses occurring from the dishonest acts or defalcations by an employee.

Fiduciary Person who is responsible for the administration of property owned by others. Corporate management is a fiduciary with respect to corporate assets which are beneficially owned by the stockholders and creditors. Similarly, a trustee is the fiduciary of a TRUST and partners owe fiduciary responsibility to each other and to their creditors.

Field work The performance of audit procedures outside the cpa's office. Much field work, but not all, is done in the client's offices after the balance sheet date.

FIFO (first-in, first-out) Is an inventory cost flow whereby the first goods purchased are assumed to be the first goods sold so that the ending inventory consists of the most recently purchased goods.

Filing of accounts The lodging of the financial statements of a company with the Registrar of Companies. There are penalties for late filing. Companies that meet the statutory definition of a small company or a medium-sized company are permitted to file abbreviated accounts.

Filing of Returns Taxpayers meeting statutory requirements must file various returns on the prescribed forms. And they must be filed timely or the y may not be considered as filed.

FIMBRA *Abbreviation for* Financial Intermediaries, Managers and Brokers Regulatory Association.

Final dividend A dividend recommended by the directors of a company to be paid to the shareholders, subject to the shareholders giving approval at the annual general meeting. It is an appropriation of profits in the profit and loss account and, until paid, is shown as a current liability in the balance sheet.

Finance 1. The practice of manipulating and managing money. 2. The capital involved in a project, especially the capital that has to be raised to start a new business. 3. A loan of money for a particular purpose, especially by a finance house.

Finance Act The annual act of parliament in the that sets out the taxation legislation for the coming year. The draft of the Act is the *Finance Bill*.

Finance charge Is the total dollar amount your loan will cost you. It includes all interest payments for the life of the loan, any interest paid at closing, your origination fee and any other charges paid to the lender and/or broker. In real estate, appraisal, credit report and title search fees are normally not included in the finance charge calculation.

Finance company A company that provides finance, normally in the form of loans. As it tends to finance ventures with a high risk factor, the cost of borrowing is likely to be higher than that made by a clearing bank.

Finance house An organization, many of which are owned by commercial banks, that provides finance for hire-purchase agreements. A consumer, who buys an expensive item (such as a car) from a trader and does not wish to pay cash, enters into a hire-purchase contract with the finance house, who collects the deposit and instalments. The finance house pays the trader the cash price in full, borrowing from the commercial banks in order to do so. The finance house's profit is the difference between the low rate of interest it pays to the commercial banks to borrow and the high rate it charges the consumer. Most finance houses are members of the Finance Houses Association.

Finance lease A lease that transfers substantially all the risks and rewards of ownership of an asset to the lessee. Under Statement of Standard Accounting Practice 21, Accounting for Leases and Hire Purchase Contracts, the lessee should record the finance lease as an asset in the balance sheet.

Financial accountants need not be qualified, in that they need not belong to an accountancy body, although the majority of those working in public practice will be. *Compare*management accounting.

Financial accounting foundation In the USA, the funding body of the Financial Accounting Standards Board; it appoints its members and reviews the process of setting standards and accounting principles.

Financial accounting Is the area of accounting concerned with reporting financial information to interested external parties.

Financial Accounting Standards Board (FASB) Independent, private, non-governmental authority for the establishment of accounting principles in the United States.

Financial Accounting Standards Official promulgations, known as statements of financial accounting standards, by the financial accounting standards board (fasb) which are part of generally accepted accounting principles (gaap) in the united states.

Financial adaptability The ability of an entity to take effective action to alter the amounts and timing of cash flows so that it can respond to unexpected needs or opportunities.

Financial analysis Is analysis of a company's financial statement, usually by accountants or financial analysts.

Financial appraisal The use of financial evaluation techniques to determine which of a range of possible alternatives is preferred. Financial appraisal usually refers to the use of discounted cash flow techniques but it may also be applied to any other approaches used to assess a business problem in financial terms, such as ratio analysis or profitability index.

Financial asset An asset that is either cash, a contractual right to receive cash, or the right to exchange a financial instrument with another entity under potentially favourable terms or an equity instrument of another entity.

Financial budget Is focused on capital expenditures and on a business's budgeted cash position:

1. CAPITAL BUDGET forecasts large expenditures for items such as machinery. Different companies set different thresholds for what qualifies as a capital expenditure (versus an expense). If the purchase of an item (such as a piece of machinery) is classified as a capital expenditure, it is then depreciated (or amortized in some cases) over a predetermined period of time. The Capital Budget covers Capital Expenditures, Disbursements for Capital Expenditures, and Depreciation Budgets.

2. CASH BUDGET tracks a business's anticipated cash receipts and disbursements. This is a very detailed and important schedule that draws on information in the Operating Budget.

Financial control (financial management) The actions of the management of an organization taken to ensure that the costs incurred and revenue generated are at acceptable levels. Financial control is assisted by the provision of financial information to management by the accountant and by the use of such techniques as budgetary control and standard costing, which highlight and analyse any variances.

Financial engineering Is a process involving the creation and combination of a variety of financial instruments in order achieve a defined financial objective within certain cost, tax and legal constraints, e.g. combining or dividing existing financial products to create new financial products.

Financial expense An item of expenditure recorded in the financial records rather than the cost records. Examples include interest paid and directors' fees.

Financial Forecasts are prospective financial statements that present expected future financial position, results of operations, and cash flows based on expected conditions. A financial forecast is of the most likely future scenario.

Financial futures A futures contract in currencies or interest rates. Unlike simple forward contracts, futures contracts themselves can be bought and sold on specialized markets.

Financial gearing Reflects any borrowing that the company may have undertaken. Operating income will become more volatile with increased financial gearing (borrowing). Thus the shares will have more risk attached to them. More borrowing, more risk.

Financial guarantee insurance Is insurance created to cover losses from specified financial transactions.

Financial highlights A voluntary disclosure made by companies in their annual reports and accounts. Key financial data, such as sales, profits, and dividends are summarized and often presented in graphic form.

Financial income Is that income that is contained within the financial statements of an entity. Financial income normally is not in alignment with taxable income reported in income tax returns.

Financial institution Any organization, such as a bank, building society, or finance house, that collects funds from individuals, other organizations, or government agencies and invests these funds or lends them on to borrowers. Some financial institutions are non-deposit-taking, e.g. Brokers and life insurance companies, who fund their activities and derive their income from selling securities or insurance policies, or undertaking brokerage services. At one time there was a clear distinction and regulatory division between deposit-taking and non-deposit-taking financial institutions. This is no longer the case; brokers and other companies now often invest funds for their clients with banks and in the money markets.

Financial leverage Is the use of debt to increase the expected return on equity. Financial leverage is measured by the ratio of debt to debt plus equity.

Financial liability A contractual obligation to either deliver cash or another financial asset to another entity or to exchange financial instruments with another entity on potentially unfavourable terms.

Financial management Is the process of managing financial resources, including management decisions concerning accounting and financial reporting, forecasting, and budgeting.

Financial modelling The construction and use of planning and decision models based on financial data to simulate actual circumstances in order to facilitate decision making within an organization. The financial models used include discounted cash flow, economic order quantity, decision trees, learning curves, and budgetary control.

Financial period The period falling between two successive balance sheets for which financial statements are prepared. For statutory accounts the period is normally 12 months, although it may be less.

Financial planner Is a investment professional who assists individuals with long- and short-term financial goals.

Financial planning The formulation of short-term and long-term plans in financial terms for the purposes of establishing goals for an organization to achieve, against which its actual performance can be measured.

Financial position Is the status of a firm's or individual's assets, liabilities, and equity positions as reflected on its financial statement.

Financial Projections are prospective financial statements that present, given one or more hypothetical assumptions, an entity's expected financial position, results of operations, and changes in financial position. A financial projection includes several alternative scenarios while a forecast is the single most likely scenario.

Financial ratio analysis An easy and valuable way to interpret and understand the numbers found in your financial statements. Understanding the relationships between the numbers can help you answer critical questions about your business — and if you monitor the ratios on a regular basis you'll gain insight into how effectively you are managing your business. And: b. lenders also like to evaluate risk by using several sets of ratios; ratios of assets to liabilities, and ratios of lender-investor dollars to owner-investor dollars. Recognize that ratios are indicators and that only you can tell the full story about your business. So the more adept you are at explaining your financial ratios to your investor/lender, the better she/he will understand your business as he/she makes a investment/credit decision.

Financial report Could contain financial statements, annual report, SEC Form 10-K, and/or prospectus among other documents, i.e. there is no set format.

Financial results Usually refers to the summary financial statements provided in compliance to the GAAP guidelines. They can cover any period(s), but usually cover either: single month, quarter, or annual periods.

Financial risk Is the possibility of whether a bond issuer will default, by failing to repay principal and/or interest in a timely manner. Usually bonds issued by the federal government, for the most part, are immune from default. Bonds issued by corporations are more probable to be defaulted on, since companies often go bankrupt. Municipalities occasionally default as well, but it is much less common. Can also be called default risk or credit risk.

Financial schedule, Contained in an audited annual report, summarizes the audited financial position of the audited entity. Other application of the term is the scheduling of amounts, not necessarily by date, of major financial events by any given category as to projected receipts, payments, costs, etc.

Financial stability measures Quantitative measures that help to determine whether a company or group is likely to be able to meet its financial obligations, including interest, dividends, and capital repayments. The measures include the gearing ratio and interest cover.

Financial statement analysis is analysis of a company's financial statement, usually by accountants or financial analysts. Usually includes indepth financial ratio analysis comparisons over time periods.

Financial statement Is a written report which quantitatively describes the financial health of a company. This includes an income statement and a balance sheet, and often also includes a cash flow statement. Financial statements are usually compiled on a quarterly and annual basis.

Financial times share indexes A number of share indexes published by the *Financial Times*, daily except Sundays and Mondays, as a barometer of share prices on the London Stock Exchange. The Financial Times Actuaries Share Indexes are calculated by the Institute of Actuaries and the Faculty of Actuaries as weighted arithmetic averages for 54 sectors of the market and divided into various industries. They are widely used by investors and portfolio managers. The widest measure of the market comes from the FTA All-Share Index of some 800 shares and fixed-interest stocks, which includes a selection from the financial sector. Calculated after the end of daily business, it covers 98% of the market and 90% of turnover by value. The FTA World Share Index was introduced in 1987 and is based on 2400 share prices from 24 countries. The Financial Times Industrial Ordinary Share Index represents the movements of shares in 30 leading industrial and commercial shares, chosen to be representative of British industry rather than of the Stock Exchange as a whole; it therefore excludes banks, insurance companies, and government stocks. The index is an unweighted geometric average, calculated hourly during the day and closing at 4.30 pm. The index started from a base of 100 in 1935 and for many years was the main day-to-day market barometer. It continues to be published but it has been superseded as the main index by the Financial Times-Stock Exchange 100 Share Index, a weighted arithmetic index representing the price of 100 securities with a base of 1000 on 3 January 1984. This index is calculated minute-by-minute and its constituents, whose membership is by market capitalization, above £1 billion, are reviewed quarterly. The index was created to help to support a UK equity-market base for a futures contract. In 1992 the index series was extended to create two further real-time indexes, the FT-SE Mid 250, comprising companies capitalized between £150 million and £1 billion, and the FT-SE Actuaries 350, both based on 31 December 1985. These indexes are further broken down into Industry Baskets, comprising all the shares of the industrial sectors, to provide an instant view of industry performance across the market, and corresponding roughly to sectors defined by markets in New York and Tokyo. A FT-SE Small **Cap Index** covers 300-600 companies capitalized between £20 million and £150 million, calculated at the end of the day's business, both including and excluding investment trusts. The Financial Times Government Securities Index measures the movements of Government stocks. The newest indexes measure the performance of securities throughout the European market. The Financial Times-Stock Exchange Eurotrack 100 Index is a weighted average of 100 stocks in Europe, which started on 29 October 1990, with a base of 1000 at the close of business on 26 October 1990. Quoted in Deutschmarks, the index combines prices from SEAQ and SEAQ International with up-to-date currency exchange rates

Financial viability is the ability of an entity to continue to achieve its operating objectives and fulfill its mission over the long term.

Financial year 1. Any year connected with finance, such as a company's accounting period or a year for which budgets are made up.

2. A specific period relating to corporation tax, i.e. the year beginning 1 April. Corporation-tax rates are fixed for specific financial years by the Chancellor in the Budget; if a company's accounting period falls into two financial years the profits have to be apportioned to the relevant financial years to find the rates of tax applicable.

Financing cost is the difference between the cost of financing the purchase of an asset and the assets cash yield. Positive carry means that the yield earned is greater than the financing cost; negative carry means that the financing cost exceeds the yield earned.

Financing margin ratio is the margin to be maintained between the debit balance and the actual security value as stipulated in the Facility Letter or any other margin as stipulated by a lending bank from time to time as the FMR.

Finished goods inventory is that portion of goods in inventory which have completed manufacture and are available for sale.

Finished goods Products that have completed the manufacturing process and are available for distribution to customers.

Finished goods stock The value of goods that have completed the manufacturing process and are available for distribution to customers. In any accounting period there will be opening stock of finished goods at the beginning of the period and closing stock of finished goods at the end of the period. Methods of valuing finished goods stock are covered by Statement of Standard Accounting Practice 9 and may include first-in-first-out cost or average cost methods.

Finished goods stocks budget A budget that expresses in both financial and quantitative terms the planned levels of finished goods at various times during the budget period.

Firm 1. Any business organization.

2. A business partnership.

Firm offer An offer to sell goods that remains in force for a stated period. For example, an 'offer firm for 24 hours' binds the seller to sell if the buyer accepts the offer within 24 hours. If the buyer makes a lower bid during the period that the offer is firm, the offer ceases to be valid. An offer that is not firm is usually called a quotation in commercial terms.

Firm order An order to a broker That remains firm for a stated period or until cancelled. A broker who has a firm order from a principal does not have to refer back if that broker can execute the terms of the order in the stated period.

Firmware Computer programs or data that are stored in a memory chip. These are often built into a computer to make it unnecessary to load the programs or data from disk or from the keyboard. Wordprocessing programs, for example, on read-only memory chips are built into some business computer systems. Firmware is also used where absolute reliability is required, for example in air-traffic control.

First mortgage debenture A debenture with the first charge over property owned by a company. Such debentures are most commonly issued by property companies.

First-in-first-out cost A method of valuing units of raw material or finished goods issued from stock based on using the earliest unit value for pricing the issues until all the stock received at that price has been used up. The next latest price is then used for pricing the issues, and so on. Because the issues are based on a FIFO cost, the valuation of closing stocks is described as being on the same FIFO basis. The method may also be used in process costing to value the work in process at the end of an accounting period.

First-year allowance A capital allowance, at a rate of 40%, available during the period 2 July 1998 to 1 July 2000 in place of the writing-down allowance.

Fiscal is belonging to the public treasury; or, pertaining to public finance and financial transactions.

Fiscal leverage is the ability of a government to affect economic conditions and/or actions of others through fiscalist policies.

Fiscal policy The use of government spending to influence macroeconomic conditions. Fiscal policy was actively pursued to sustain full employment in the post-war years; however, monetarists and others have claimed that this set off the inflation of the 1970s. Fiscal policy has remained 'tight' in most western countries since the 1980s, with governments actively attempting to reduce the level of public expenditure.

Fiscal quarter is any of the four financial accounting quarters within a fiscal year.

Fiscal year Is the declared accounting year for a company, but it is not necessarily in conformance to a calendar year. However, it does cover twelve months, 52 weeks, 365 days.

Fiscalist is an economist who prefers that the government affect the economy by raising and lowering taxation and/or government spending.

Fixed asset Is a long-term tangible asset that is not expected to be converted into cash in the current or upcoming fiscal year, e.g., buildings, real estate, production equipment, and furniture. Sometimes called PLANT.

Fixed assets / net worth Measures liquidity by comparing "fixed" assets with "fixed" capital. A lower ratio indicates proportionately smaller investment and a better "cushion" for creditors in case of liquidation. This may be important if the fixed assets are not easily used in other businesses. The presence of substantial leased fixed assets may deceptively lower this ratio. Therefore smaller is better, i.e., greater than .75 (75%) should merit caution.

Fixed asset turnover Measures management's ability to generate revenues from investments in fixed assets. FAT considers only the firm's investment in property, plant and equipment and is extremely important in high asset firms such as manufactures and telecommunications companies. Generally, the higher this ratio:

The smaller the investment required to generate sales, thus the more profitable the firm.

Indicates the firm has less money tied up in fixed assets for each dollar of sales revenue.

A declining ratio may indicate that the firm has over-invested in plant, equipment, or other fixed assets.

Fixed bond Pays an income stream and redemption payment at maturity than is fixed in monetary terms; however, high inflation will erode the real value of these payments.

Fixed budget Is a budget that is not adjusted for changes in the volume of service.

Fixed charge Is those expenses incurred each time a batch of product is produced. Primarily consists of ordering cost for the raw material, engineering costs for machine setup and preparation for the production run, and work order processing cost; also known as SETUP COST.

Fixed costs Are operating expenses that are incurred to provide facilities and organization that are kept in readiness to do business without regard to actual volumes of production and sales. Fixed costs remain relatively constant until changed by managerial decision. Within general limits they do not vary with business volume. Examples of fixed costs consist of rent, property taxes, and interest expense.

Fixed exchange rate A rate of exchange between one currency and another that is fixed by government and maintained by that government buying or selling its currency to support or depress its currency.

Fixed expenses In the operation of a business are those expenses that remain the same regardless of production or sales volume, i.e. do not fluctuate with sales volume.

Fixed fee Is a set price for the completion of a project. It is easier for the customer to budget, but provides higher risk for the contractor due to cost overruns.

Fixed overhead absorption rate The budgeted fixed overheads divided by the budgeted standard hours or the budgeted fixed overheads divided by the budgeted production in units.

Fixed overhead cost The elements of the indirect costs of an organization's product that, in total, remain unchanged irrespective of changes in the levels of production or sales. Examples include administrative salaries, sales personnel salaries, and factory rent.

Fixed overhead expenditure variance The difference arising in a system of standard costing between the fixed overhead budgeted and the fixed overhead incurred.

Fixed overhead Is those costs like rent, utilities, basic telephone, loan payments, etc., that stay the same whether sales go up or down. Variable overhead, on the other hand, are those costs which vary directly with production.

Fixed overhead total variance The difference arising in a system of standard costing between the fixed overhead absorbed and that incurred for a period.

Fixed production overhead The elements of an organization's factory overheads that, in total, remain unchanged irrespective of changes in the level of production or sales. Examples include factory rent, depreciation of machinery using the straight-line method, and the factory manager's salary.

Fixed-asset investment Expenditure on tangible assets that are likely to have a life of more than one year.

Fixed-asset to equity-capital ratio A ratio used to calculate a business's ability to satisfy long-term debt. The value of the fixed assets is divided by the equity capital; a ratio greater than 1 means that some of the fixed assets are financed by debt.

Fixed-assets register A listing of the fixed assets of a company. It records a description of the asset, its location, cost, revaluation, estimated net value, estimated useful economic life, depreciation method, accumulated provision for depreciation, and net book value.

Fixed-asset-turnover ratio A ratio that measures an organization's activity over a period by calculating the number of times the sales are a multiple of the balance-sheet value of the fixed assets. The fixed-asset values may be taken either at the beginning or the end of the period or an average of the two.

Fixed-rate loan A loan in which the interest rate is fixed at the start of the loan. It is standard for bond issues, but unusual for bank borrowing.

Flash report Provides highlights of key information promptly to the responsible managerial accountant; also called EXCEPTION REPORT.

Flat interest Refers to charging interest on the full original loan amount, rather than on the declining balance. With group based loans, for example, a common "interest rate" is "3% per month, flat, for 4 months". This means that a $100 principal amount lent is multiplied by 3%, and then by 4 months to come up with $12 in interest. Thus, $112 would be repaid over 4 months in equal installments.

Flat lease Is a lease where the cost is fixed for a specific period of time.

Flat rate Is a per unit price that remains constant regardless of the volume purchased.

Flexed allowance The budgeted expenditure level for each of the variable cost items adjusted to the level of activity actually achieved.

Flexible budget Is based upon different levels of activity. It is a very useful tool for comparing actual costs experienced to the cost allowable for the activity level achieved, i.e. it is dynamic in nature as compared to static. A series of budgets can be readily developed to fit any activity level. Flexible budgeting distinguishes between fixed and variable cost, thereby allowing for a budget that can be automatically adjusted to the level of activity actually attained.

Float Is 1. the time between the deposit of checks in a bank and when the amount is truly accessible;

2. the amount of funds represented by checks that have been written but not yet presented for payment. Some entities will 'play the float' by writing checks although there are insufficient funds actually on deposit to cover the checks; and,

3. to issue new securities through an underwriter.

Floating charge A charge over the assets of a company; it is not a legal charge over its fixed assets but floats over the charged assets until crystallized by some predetermined event. For example, a floating charge may be created over all the assets of a company, including its trading stock. The assets may be freely dealt with until a crystallizing event occurs, such as the company going into liquidation. Thereafter no further dealing may take place but the debt may be satisfied from the charged assets. Such a charge ranks in priority after legal charges and after preferred creditors in the event of a winding-up. It must be registered.

Floating exchange rate A rate of exchange between one currency and others that is permitted to float according to market forces. Most major currencies and countries now have floating exchange rates but governments and central banks intervene, buying or selling currencies when rates become too high or too low.

Floating rate convertible note Is a debt instrument that is a short-term debt obligation where the interest rate is variable because it is linked to a market rate such as the 3-month T-bill rate or London Interbank Offer Rate , and conditionally allows for the note to be exercised into the security of the debtor in accordance with the conditions set forth in the debt instrument.

Floor Term used when discussing inventories. Inventory cannot be valued lower than the "floor" which is the net realizable value of the inventory less an allowance for a normal profit margin.

Flotation The process of launching a public company for the first time by inviting the public to subscribe for its shares . It applies both to private and nationalized share issues, and can be carried out by means of an introduction, issue by tender, offer for sale, placing, or public issue. After flotation the shares can be traded on a stock exchange. Flotation allows the owners of the business to raise new capital or to realize their investments. Flotation can be either on the main market through a full listing or on the unlisted securities market, where less stringent regulations apply. Some countries allow flotation on over-the counter markets.

Flowchart A diagram representing the sequence of logical steps required to solve a problem. It is a useful tool for the computer programmer, being used to plan a program. There are a number of conventional symbols used in flowcharts. The important ones are the process box, which indicates a process taking place, and the decision lozenge, which indicates where a decision is needed.

Flow-Through Entity An entity where the income, losses, and certain other items of income and deduction are passed through to the owners. For example, partnerships, trusts, and S corporations.

Fob point of origin Is where the supplier is responsible for all shipping costs to the point of having the goods loaded unto the vessel for shipment to its destination. The purchaser, from that point forward, is responsible for all further shipping costs to the point of destination, e.g., insurance, transportation, etc.

Folio Dependent upon application, is a. a book consisting of large sheets of paper folded in the middle to make two leaves or four pages; or, b. a sheet of any written or printed material or, c. the system of numbering pages; or, d. in investments, an unstructured basket of common stock that may represent a stock index, a sector or theme, or even an actively-managed portfolio at inception, but which may be modified by an investor or an advisor to meet the tax and spending needs of its owner. The rationale for the folio is to take advantage of diversification and the ability to realize tax losses in a separately managed account. In general, an investor will have to devote a fair amount of time to the folio or engage the services of a specialized advisor.

Footnote Explanatory narrative and numerical data that follows the financial statements of a company

For information only Denoting a quotation given to provide a client with a guide to current market prices. It cannot be treated as a firm offer either to buy or to sell at the quoted price.

Forecast reporting The inclusion of projected figures in the financial report of a company. For example, forecast sales figures may be included.

Foreclosure The legal right of a lender of money if the borrower fails to repay the money or part of it on the due date. The lender must apply to a court to be permitted to sell the property that has been held as security for the debt. The court will order a new date for payment in an order called a foreclosure nisi. If the borrower again fails to pay, the lender may sell the property. This procedure can occur when the security is the house in which the mortgagor lives and the mortgagor fails to pay the mortgagee the mortgage instalments. The bank, etc., then forecloses the mortgage, dispossessing the mortgagor.

Foreign Corporation A corporation which is not organized under the laws of ones territories or states. Taxing of foreign corporations depends on whether the corporation has Nexus or effectively connected income in that state.

Foreign currency The currency of another country, which is not used in the preparation of an organization's domestic accounts. However, the existence of foreign subsidiaries or branches or overseas transactions may mean that an organization must translate these foreign currencies into the domestic currency to prepare its financial statements.

Foreign currency translation Is the process of restating foreign currency accounts of subsidiaries into the reporting currency of the parent company in order to prepare consolidated financial statements in the native currency of the parent company.

Foreign exchange The currencies of foreign countries, which are bought and sold on a foreign-exchange market. The foreign-exchange spot market caters for transactions in which the two currencies are exchanged usually within two business days. The forward market in foreign exchange caters for situations in which the exchange does not take place until a specified date in the future.

Foreign-exchange dealer A person who buys and sells foreign exchange on a foreign-exchange market, usually as an employee of a commercial bank. Banks charge fees or commissions for buying and selling foreign exchange on behalf of their customers; dealers may also be authorized to speculate in forward exchange rates.

Forensic accounting Provides for an accounting analysis that is suitable to a court of law which will form the basis for discussion, debate and ultimately dispute resolution. Forensic accounting encompasses investigative accounting and litigation support. Forensic accountants utilize accounting, auditing and investigative skills when conducting an investigation. Equally critical is the ability to respond immediately and to communicate financial information clearly and concisely in a courtroom setting.

Forfaiting A form of debt discounting for exporters in which a forfaiter accepts at a discount, and without recourse, a promissory note, bill of exchange, letter of credit, etc., received from a foreign buyer by an exporter. Maturities are normally from one to three years. Thus the exporter receives payment without risk at the cost of the discount.

Forfeited share A partly paid share in a company that the shareholder has to forfeit because of a failure to pay a subsequent part or final payment. Such shares must be sold or cancelled by a public company but a private company is riot regulated in this respect.

Forgery The legal offence of making a false instrument in order that it may be accepted as genuine, thereby causing harm to others. Under the Forgery and Counterfeiting Act, an instrument may be a document or any device on which information is recorded. An instrument is considered false, for example, if it purports to have been made or altered by someone who did not do so, on a date or at a place when it was not, or by someone who does not exist.

Format The method of presenting financial statements chosen by an organization. Incorporated bodies must use the formats prescribed by the Companies Act for their balance sheet and profit and loss account. The profit and loss format is also regulated by Financial Reporting Standard 3, Reporting Financial Performance.

Formation expenses The expenses incurred on setting up a company. According to the

Companies Act, these expenses must not be treated as an asset of the company.

Forward interest rate The rate of interest that will apply to a loan or deposit beginning on a future date and maturing on a second future date.

Forward interest rate agreement Is where two entities agree to a fixed interest rate in the future. If the actual rate is different than the fixed rate, one party will pay the other party the present value of the difference between the interest cash flows. Essentially the two entities are gambling on which way the interest rate of an index will change. These contracts are not traded on an established exchange but rather are private contracts between parties.

Forward looking statements, Within the meaning of the Private Securities Litigation Reform Act of 1995,are statements made that are not historic and are thereby predictive. You can identify forward-looking statements by use of the words “believe”, “expect”, “anticipate”, “intend”, “estimate”, “assume”, “project” and other similar expressions that predict or indicate future events and trends or that do not relate to historical matters. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements.

Forward market in foreign exchange A foreign-exchange market in which currencies are traded for exchange at a future date. If an importer has an obligation to pay for goods in a foreign currency at some time in the future and does not wish to accept the risk that a currency fluctuation may lead to that obligation increasing, the importer can cover the risk by buying the foreign currency for delivery at a future date. Rates for standard periods for one, two, three, six, and twelve months can be obtained, while for other forward periods the price may have to be negotiated. The three most common forward-exchange contracts are forward swaps, forward outrights , and maturity option contracts.

Forward points The amount to be added to or deducted from the spot foreign-exchange rate to calculate the forward exchange rate.

Forward Supply Contract A contract for future supply of definite quantities of goods or services over a fixed period.

Forward-rate agreement 1. A contract between two parties that determines the rate of interest that will apply to a future loan or a deposit, which may or may not materialize. 2. A specified amount of a specified currency to be exchanged on an agreed future date at a specified rate of exchange.

Founders’ shares The shares issued to the founders of a company. These shares sometimes carry special dividend rights and voting rights.

Fragmentation A situation that arises when two transactions, especially foreign-exchange transactions, offset each other commercially but not in terms of taxation.

Franchise Legal arrangement whereby the owner of a trade name, franchisor, contracts with a party that wants to use the name on a non-exclusive basis to sell goods or services, franchisee. Frequently, the franchise agreement grants strict supervisory powers to the franchisor over the franchisee which, nevertheless, is an independent business.

Franked investment income Dividends and other distributions from companies that are received by other companies: it applies mainly to pre 1 April 1999 income. The principle of the imputation system of taxation was that once one company had paid corporation tax, any dividends it paid could pass through any number of other companies without carrying a further corporation-tax charge, hence the term ‘franked’. The amount of tax credit included in the franked investment income could reduce the amount of advance corporation tax that the recipient company had to pay on its own dividends. Where franked investment income exceeded franked payments, the excess was carried forward to future accounting periods and could be set off against future franked payments . If the company had unused trading losses that could be carried back, a terminal loss, unused capital allowances, or a deduction for charges on income then a claim could be made for the repayment of any unused tax credit.

Fraud Willful misrepresentation by one person of a fact inflicting damage on another person.

Free and Clear In real estate the term is used to indicate that the investment analysis has ignored any debt on the property.

Free asset ratio The ratio of the market value of an insurance company's assets to its liabilities.

Free cash flow Is net income plus non-cash charges to income, specifically depreciation and amortization less capital expenditures, to sustain the basic business.

Free in and out Denoting a selling price that includes all costs of loading goods and unloading them .

Free trade agreement Is an agreement between countries that will result, over an agreed period of time, in an elimination of duties for goods flowing between the signatories.

Free trade zone Is an area, usually a port of entry, designated by the country for duty-free entry of goods. As long as the goods do not go into the country from the FTZ, no duty is assessed. While in the FTZ, goods may be processed, packaged, serviced or displayed.

Freehold An estate in land that is now usually held in fee simple. Land that is not freehold will be leasehold.

Freight forwarder Is an individual or firm that provides for the packing and shipping of merchandise. Generally they also assist with export and other documentation.

Frequency, In advertising, is the number of times you hope to reach your target audience through your advertising campaign.

Fresh start accounting, Upon emergence from bankruptcy, the consolidated financial statements of the "Successor Company" apply the provisions of fresh start accounting in accordance with Generally Accepted Accounting Principles . Under fresh start accounting, a new reporting entity, the "Successor Company", is deemed to be created, and the recorded amounts of assets and liabilities are adjusted to reflect their fair value. As a result, the reported historical financial statements of the "Predecessor Company" generally are not comparable to those of the "Successor Company".

Friendly society A non-profitmaking association registered as such under the Friendly Society Acts. Mutual insurance societies, dating back to the 17th century, were widespread in the 19th and 20th centuries, until many closed in 1946 after the introduction of National Insurance. Some developed into trade unions and some large insurance companies are still registered as Friendly Societies. They now offer tax-free investment plans normally over a 10-year period, with the policies including a life-assurance element. Investment in the tax-free plans are limited by government regulations.

Friendly takeover Consists of a straight buyout of a company, and happens all the time. The shareholders receive cash or an agreed-upon number of shares of the acquiring company's stock.

Fringe benefit An incidental benefit awarded for certain types of employment .

Front-end fee A fee payable by a company that has borrowed a sum of money. It is paid shortly after signing the loan agreement and relates to the full amount of the loan, regardless of usage, subsequent cancellation, or early repayment. It is usually made up of four components: a lead management fee; general management fee; underwriting fee; and the participation fee.

Front-end loading The initial charge to cover administrative expenses and commission included in the first payment of a loan instalment, unit trust investment, or insurance premium. The effect of this is to increase the first payment in relation to subsequent payments. Therefore, if an investment is being made on behalf of a client, the investment is the initial payment made by the client less the front-end load.

Frozen assets Assets that for one reason or another cannot be used or realized. This may happen when a government refuses to allow certain assets to be exported.

Frustration of contract The termination of a contract as a result of an unforeseen event that makes its performance impossible or illegal, A contract to sell an aircraft could be frustrated if it crashed before the contract was due to be implemented. Similarly an export contract could be frustrated if the importer was in a country that declared war on the country of the exporter.

Full absorption costing A costing method that charges all the production costs to the units produced. Production overhead costs are initially charged to cost centers by allocation and apportionment; absorption rates are then calculated using the total cost center overheads by which the production overheads are charged to the cost units. The method provides costs for product pricing and valuation of work in progress and finished goods, as well as profit measurement.

Full charge bookkeeper Is someone who can do it all - including compiling the data into the General Ledger and preparing financial statements.

Full consolidation The method of consolidation in which 100% of each item of all subsidiary undertakings is brought into the consolidated financial statements of a group. This will include assets, liabilities, income, and expenses. If a subsidiary undertaking is less than 100% owned, the percentage pertaining to the minority interest must be adjusted for.

Full cost pricing A method of setting the selling prices of a product or service that ensures the price is based on all the costs likely to be incurred in its supply.

Full cost recovery Is adjusting fees/prices for goods/services to where all cost of operations and maintenance are covered for supplying the given goods or services.

Full costing method A method of costing a product or service that charges all the costs ofan organization, both direct costs and overheads, to the cost unit. The full costing method usually takes the total absorption cost approach to the costing of products and services.

Full Costs All costs including Direct Costs and general and administrative expenses as well as selling expenses.

Full disclosure, Generally, is the requirement to disclose all relevant or material facts to a transaction.

Fully depreciated Is when an asset has already been charged with the maximum amount of depreciation allowed by the taxing authority for accounting purposes.

Fully diluted earnings per share The earnings per share for a company that takes into account the number of shares in actual issue as well as those that may be issued as a result of such factors as convertible loans and options or warranties.

Fully paid share A share in a company in which all calls for payment have been paid. The total paid will be the par value plus any premium.

Function A section or department of an organization that carries out a discrete activity, under the control of a manager or director. It is the section of the business for which functional budgets are produced. Examples of separate functions are production, sales, finance, and personnel.

Function costing The technique of collecting the costs of an organization by function and presenting them to the functional management in operating statements on a regular basis.

Functional budget A financial or quantitative statement prepared for a function of an organization; it summarizes the policies and the level of performance expected to be achieved by that function for a budget period.

Functional currency, Generally, is the currency of record for any given entity. Within the context of foreign currency, it is the currency which a foreign subsidiary handles on a day-to-day basis in generating net cash flows. It is normally the currency of the country in which the subsidiary operates, but may be the currency of the parent company.

Functional-based accounting Focuses on organizational units such as departments and plants, uses financial outcome measures and static standards and benchmarks to evaluate performance, and emphasizes status quo and organizational stability. On the other hand, activity-based accounting focuses on processes, uses both operational and financial measures and dynamic standards, and emphasizes and supports continuous improvement. Activity-based accounting adds a process perspective.

Fund Accounting Method of accounting and presentation whereby assets and liabilities are grouped according to the purpose for which they are to be used. Generally used by government entities and not-for-profits.

Fund Is a pool of money normally set apart for a purpose, for example, a pension fund to provide pensions.

Fund management Is the professional, in many cases regulated, caretaker of client assets for a fee. Dependent upon type of fund, the fund may be authorized to put assets within the fund at risk in the pursuit of profits for the asset owners .

Fund theory Views the organization as a series of funds or sub-funds represented by various services or departments.

Fundamental analysis Is a method used to evaluate the worth of a security by studying the financial data of the issuer. Performing fundamental analysis will teach you a lot about a company, but virtually nothing about how it will perform in the stock market. Apply this analysis on two competing companies or in comparisone to its industry and it becomes clearer which the best investment choice is.

Fundamentals Are factors which are "fundamental" to the working of a company's business, its profitability, operating costs, product prices, technical innovations, etc. Company analysis taking into account these fundamental factors facilitates share valuation.

Fundamental error A material mistake in, or omission from, the accounts of a business; it is not a recurring adjustment or the correction of an accounting estimate made in a prior period. When a fundamental error is discovered applying to a prior period, a prior-period adjustment should be made.

Funded depreciation account Is a reserve setup to cover the replacement cost of those capital assets covered within the depreciation schedule.

Funded pension scheme An occupational pension scheme in which the future liabilities for benefits are provided for by the accumulation of a fund of assets, held externally to the business of the employer.

Funds employed, Normally, is the average of Net Working Capital plus Fixed Assets held at the beginning and end of the financial year.

funds flow Is the funds generated from operations; normally expressed as 'cash flow from operations' or 'working capital from operations'.

Funds flow statement A former financial statement required by Statement of Standard Accounting Practice 10, Source and Application of Funds, which showed the differences between two successive balance sheets. It has now been replaced by the cash-flow statements required by Financial Reporting Standard 1.

Fungible issue A bond issued on the same terms and conditions as a bond previously issued by the same company. It has the advantage of having paperwork consistent with the previous bond and of increasing the depth of the market of that particular bond. The gross redemption yield on the fungible issue will probably be different from that of the original issue, which is achieved by issuing the bond at a discount or a premium.

Fungibles 1. Interchangeable goods, securities, etc., that allow one to be replaced by another without loss of value. Bearer bonds and banknotes are examples. 2. Perishable goods the quantity of which can be estimated by number or weight.

Future Contract Transferable agreement to deliver or receive during a specific future month a standardized amount of a commodity.

Future value Is the amount of money that an investment made today will grow to by some future date. Since money has time value, we naturally expect the future value to be greater than the present value. The difference between the two depends on the number of compounding periods involved and the going interest rate.

Futures Are contracts to buy or sell specific quantities of a commodity or financial instrument at a specified price with delivery set at a specified time in the future.

Futures contract an agreement to buy or sell a fixed quantity of a particular commodity, currency, or security for delivery at a fixed date in the future at a fixed price. Unlike an option, a futures contract involves a definite purchase or sale and not an option to buy or sell; it therefore may entail a potentially unlimited loss. However, futures provide an opportunity for those who must purchase goods regularly to hedge against changes in price. For hedging to be possible there must be speculators willing to offer these contracts; in fact trade between speculators usually exceeds the amount of hedging taking place by a considerable amount. In London, futures are traded in a variety of markets. Financial futures are traded on the London International Financial Futures and Options Exchange; the London Commodity Exchange, which incorporates the Baltic International Freight Futures Exchange; the London Metal Exchange; and the International Petroleum Exchange. In these futures markets, in many cases actual goods do not pass between dealers, a bought contract being cancelled out by an equivalent sale contract, and vice versa; money differences arising as a result are usually settled through a clearing house. In some futures markets only brokers are allowed to trade; in others, both dealers and brokers are permitted to do so.

Fx account A trading account usually based in foreign currencies.

G

G&A Usually refers to the indirect overhead costs contained within the General and Administrative expense / cost categories.

Gain Is: a. the amount by which the revenue of a business exceeds its cost of operating; b. rise in rate or price; c. earn on some commercial or business transaction; d. earn as salary or wages.

Gamma stocks Formerly, stocks that were less frequently traded on the London Stock Exchange than alpha and beta stocks.

Gantt chart A chart presenting a planned activity as horizontal bands against a background of dates. Planned production may also be compared to actual production.

Gao Is the investigative arm of the United States Congress charged with examining matters relating to the receipt and payment of public funds.

Garage Liability Insurance A policy for businesses that work with autos. The policies provide coverage for operations in progress and completed operations as well as the premises.

Garbage in, garbage out Is an often used computer and software industry saying meaning that if the data going into a system is suspect, the resulting data output will be suspect.

GAtt Is a multilateral treaty that aims to reduce trade barriers and increase trade. The GATT was an interim treaty process that has now culminated in the World Trade Organization .

Gearing The relationship between the funds provided to a company by ordinary shareholders and the long-term funds with a fixed interest charge, such as debentures and preference shares. A company is said to be highly geared when its fixed charges, either in terms of capital or income, are significantly higher than those for other companies. A highly geared company is considered to be a speculative investment for the ordinary shareholder and will be expected to show good returns when the company is doing well.

Gearing adjustment In current cost accounting, an adjustment that reduces the charge to the owners for the effect of price changes on depreciation, stock, and working capital. It is justified on the grounds that a proportion of the extra financing is supplied by the loan capital of the business.

Gearing ratio Measures the percentage of capital employed that is financed by debt and long term financing. The higher the gearing, the higher the dependence on borrowing and long term financing. Whereas, the lower the gearing ratio, the higher the dependence on equity financing.

Traditionally, the higher the level of gearing, the higher the level of financial risk due to the increased volatility of profits. Financial manager face a difficult dilemma. Most businesses require long term debt in order to finance growth, as equity financing is rarely sufficient, on the other hand, the introduction of debt and gearing increases financial risk. A high gearing ratio is positive; a large amount of debt will give higher return on capital employed but the company dependent on equity financing alone is unable to sustain growth. Gearing can be quite high for small businesses trying to become established, but in general they should not be higher than 50%. Shareholders benefit from gearing to the extent that return on the borrowed money exceeds the interest cost so that the market value of their shares rise.

General accounting Involves the basic principles, concepts and accounting practice, recording, financial statement preparation, and the use of accounting information in management.

General Accounting Office Accounting and auditing office of the United States government. An independent agency that reviews federal financial transactions and reports directly to Congress.

General controls Controls, other than application controls, that relate to the environment within which computer-based accounting systems are developed, maintained, and operated; they are therefore applicable to all the applications. The objectives are to ensure the proper development and implementation of applications and the integrity of program and data files.

General controls Policies and procedures to assure proper operation of computer systems, including controls over data center and network operations, software acquisition and maintenance, and access security.

General Crime Exclusions Refers to perils in an insurance policy that are excluded because they are usually covered under another type of policy.

General expenses Those expenses of an organization that cannot easily be placed in any other cost classification.

General journal Is the most basic of journals. It is a chronological list of transactions. It has a very specific format for recording each transaction. Each transaction is recorded separately and consists of: 1.) a date; 2.) any and all accounts to receive a debit entry are listed first with an amount in the appropriate column, then; 3.) any and all accounts to receive a credit entry are indented and listed next with an amount in the appropriate column; 4.) a clear description of the transaction. At least one line is then skipped to visually separate recorded transactions.

General ledger Is the ledger that contains all of the financial accounts of a business; contains offsetting debit and credit accounts .

General meeting A meeting that all the members of an association may attend.

General obligation bond In the USA, a security in which the government department with the authority to levy taxes has unconditionally promised payment.

General partner A member of a partnership who has unlimited liability for any debts of that partnership.

General partnership Is one or more partners who are jointly and severally responsible or liable for the debts of the partnership.

General price level An index that gives a measure of the purchasing power of money

General purpose financial statements The annual accounts and report prepared by companies; they are intended to serve the needs of many users and are therefore regarded as general purpose documents. Specific purpose statements are sometimes prepared to meet the needs of a particular group of users. However, as many annual report and accounts are over 80 pages in length it would not be practical to extend them further in an attempt to meet more closely the needs of the special groups of users. Therefore general purpose financial statements are often regarded as compromise documents • designed to satisfy to a large extent the information needs of a number of different groups. Recent changes in legislation and the increasing complexity of accounting standards have resulted in statements that are likely to be understood only by the financially sophisticated.

General standard In the auditing standards there are three general standards:

1. The examination is to be performed by a person or persons having adequate technical training and proficiency as an auditor.

2. In all matters relating to the assignment, an independence in mental attitude is to be maintained by the auditor.

3. Due professional care is to be exercised in performing the examination and preparation of the report.

Generalized audit software Packaged computer programs used on a variety of computers during audit field work to read computer files, select information, perform calculations, create data files, and print reports in a format specified by the auditor.

Generally Accepted Accounting Principles Conventions, rules, and procedures necessary to define accepted accounting practice at a particular time. The highest level of such principles are set by the Financial Accounting Standards Board .

Geographical segment Is a component of an enterprise that (a) provides products and services within a particular economic environment and (b) that is subject to risks and returns that are different from those of components operating in other economic environments.

Geometric mean An average obtained by calculating the nth root of a set of n numbers. For example the geometric mean of 7, 100, and 107 is 3v74 900 42.15, which is considerably less than the arithmetic mean of 71.3.

Gift A valid transfer of property from one taxpayer to another without consideration or compensation. A gift may be subject to the unified estate and gift transfer tax.

Gifts inter vivos Gifts made during an individual's lifetime. The treatment of such gifts, for inheritance tax purposes, depends on the amount of the gift, the occasion of the gift, and the recipient of the gift. Small gifts can be covered by the small gifts exemption or by the individual's annual exemption . ditional gifts are exempt if they are given on the occasion of marriage. Any gift from one individual to another individual is a potentially exempt transfer and only becomes liable to tax if the donor dies within seven years of making the gift. Gifts to some discretionary trusts are chargeable to inheritance tax at lifetime rates, which is half the death rate. The level of charge is dependent on the size of the transfer to the discretionary trust and the amount of previous chargeable transfers within the preceding seven years.

Gifts with reservation of benefit A gift in which the donor retains some benefit from the asset given away. Examples include:

Shares given away in which the donor continues to receive the dividends;

Property given by a parent to a child, although the parent continues to live in the property, rent-free.

Gilt-edged security (gilt) A fixed-interest security or stock issued by the British government in the form of Exchequer stocks or Treasury stocks. Gilts are among the safest of all investments, as the government is unlikely to default on interest or on principal repayments. They may be irredeemable or redeemable. Redeemable gilts are classified as: long-dated gilts or longs (not redeemable for 15 years or more), medium-dated gilts or mediums (redeemable in 5 to 15 years), or short-dated gilts or shorts (redeemable in less than 5 years).

Like most fixed-interest securities, gilts are sensitive not only to interest rates but also inflation rates. This led the government to introduce indexlinked gilts in the 1970s, with interest payments moving in a specified way relative to inflation.

Most gilts are issued in units of £100. If they pay a high rate of interest (i.e. higher than the current rate) a £100 unit may be worth more than £100 for a period of its life, even though it will only pay £100 on redemption. Gilts bought through a stockbroker or bank are entered on the Bank of England.

Stock Register. Gilts can, however, be bought direct by post through the National Savings Stock Register.

Global bond Is a bond issued and traded outside the country whose currency it is denominated in, and outside the regulations of a single country; usually a bond issued by a non-European company for sale in Europe; also called Eurobond.

Global custody Is a term used within the investment banking industry in defining securities/monetary instruments that are traded internationally by Global Custodians. Those securities would be held in "Global Custody". Chase Bank originated the concept of providing Global Custody trading services for institutional investors trading in foreign markets in 1974. Banks recognized as Global Custodians provide their customers with Global Custody services in respect to securities traded and settled not only in the country in which the Global Custodian is located but also in numerous other countries throughout the world.

Global mutual fund, Also Bond Fund, is a mutual fund that can invest in stocks and bonds throughout the world. Such funds typically have a portion of their assets in American markets as well as Europe, Asia, and developing countries. Global funds differ from INTERNATIONAL MUTUAL FUNDS, which invest only in non-Canadian securities. The advantage of global funds is that the fund managers can buy stocks or bonds anywhere they think has the best opportunities for high returns. Thus if one market is underperforming, they can shift assets to markets with better potential. Though some global funds invest in both stocks and bonds, most funds specialize in either stocks or bonds.

Globalization Is the name for the process of increasing the connectivity and interdependence of the world's markets and businesses. In its literal sense, globalization is a social change, an increased connectivity among societies and their elements due to transculturation; the explosive evolutions of transport and communication technologies to facilitate international cultural and economic exchange are examples of globalization.

Goal congruency The circumstances in which the objectives of individual managers coincide with those of the organization as a whole.

Goal Is the milestone the organization aims to achieve that evolves from strategic issues or operational improvement planning. They transform strategic issues into specific performance targets that impact the entire organization, or operational improvement that is more localized in nature. They can be qualitative or quantitative. Dependent upon usage, GOALS are general in nature, while OBJECTIVES are specific, measurable and time-based. In some organizations, the meanings for GOAL and OBJECTIVE are reversed.

Going Concern Assumption that a business can remain in operation long enough for all of its current plans to be carried out.

Going concern concept Is the underlying assumption that any accountant makes when he prepares a set of accounts. That the business under consideration will remain in existence for the foreseeable future.

Going concern Refers to the liquidity of a concern. If the concern is illiquid, the viability of that concern being able to continue to operate is in doubt.

Going public Refers to those activities that relate to offering a private company's shares to the general investing public including registering with the SEC.

Going rate is an expression that means the cost of the average of suppliers of like products or services. The connotation is that the cost will be "no more expensive than the competition."

Going-concern concept A principle of accounting practice that assumes businesses to be going concerns, unless circumstances indicate otherwise. It assumes that an enterprise will continue in operation for the foreseeable future, i.e. that the accounts assume no intention or necessity to liquidate or significantly curtail the scale of the enterprise's operation. The implication of this principle is that assets are shown at cost, or at cost less depreciation, and not at their break-up values; it also assumes that liabilities applicable only on liquidation are not shown. The going-concern value of a business is higher than the value that would be achieved by disposing of its individual assets, since it is assumed that the business has a continuing potential to earn profits. The concept is assumed in the preparation of financial statements. If an auditor thinks otherwise the audit report should be qualified.

Golden handcuffs Financial incentives offered to key staff to persuade them to remain with an organization.

Golden handshake (golden good-bye) An ex gratia payment or payment for loss of office made by an employer to an employee if the contract of employment is terminated; for example, in the case of a takeover. It is possible, under certain circumstances, for the compensation payment to be paid wholly or partly tax-free. The payment must not be made as a result of a contractual obligation to make such a payment nor should the employee be entitled to the payment. If it can be shown that the payment complies with the regulations then the first £30,000 is tax-free, with only the balance chargeable to tax.

Golden hello A payment made to induce an employee to take up employment. The tax treatment depends on the nature of the payment; in some cases the taxpayer has successfully argued that the payment should be tax-free.

Golden key The key that unlocks the golden handcuffs; it usually consists of a single payment to an employee who has not lived up to expectations or who is no longer considered worth retaining.

Golden parachute A clause in the employment contract of a senior executive in a company that provides for financial and other benefits if the executive is sacked or decides to leave as the result of a takeover or change of ownership.

Golden rules of accounting Are: 1. Debits ALWAYS EQUAL Credits;

2. Increases DO NOT NECESSARILY EQUAL Decreases; and,

3. Assets - Liabilities = Owner's Equity (The Accounting Equation).

Good output In process costing, the sound and flawless output from a process either to a succeeding process or to finished goods stock, the normal loss and the abnormal loss having been accounted for in the process costing procedures.

Goods received note (GRN) A form completed by the recipient of ordered goods confirming the specification of the goods received. The form includes a description of the goods, the quantity, the commodity code, the date received, and the order number.

Goodwill Is that intangible possession which enables a business to continue to earn a profit that is in excess of the normal or basic rate of profit earned by other businesses of similar type. The goodwill of a business may be due to a particularly favorable location, its reputation in the community, or the quality of its employer and employees. The evidence that goodwill exists is the proven ability to earn excess profits. Goodwill is created on the books of a newly purchased company to the extent that the purchase price of the company is greater than the value of its net tangible assets. There are a number of methods for valuing goodwill: a. Simple Capitalization - The net profit of the business is capitalized to determine the total value of the business. The value of all the tangible assets is subtracted from the total value to establish the value of the intangible assets, or goodwill. b. Excess Earnings - the amount of earnings that are in excess of those normally earned by a similar business are capitalized to determine the value of goodwill. c. Income Tax Method - The past five years net income is averaged and a reasonable expected rate of return for tangible assets and salary requirements are subtracted. The resulting value is then capitalized to arrive at the goodwill value. d. Market Value - The price a willing seller would accept and a willing buyer would pay for goodwill. e. Buy / Sell Agreement - The value of goodwill is established by a formula in the buy/ sell agreement. f. Rule of Thumb - Goodwill is worth one years gross income.

Goodwill write-off reserve A special reserve against which to place a goodwill write-off. The reserve has a debit balance and is referred to as the dangling debit.

Governing Documents Official legal documents that dictate how an entity is operated. the governing documents of a corporation include articles of incorporation and bylaws; a partnership includes the partnership agreement; a trust includes the trust agreement or trust indenture; and an llc includes the articles of organization and operating agreement.

Government grant An amount paid to an organization to assist it to pursue activities considered socially or economically desirable. Grants may be revenue-based, i.e. made by reference to a specified category of revenue expenditure. Revenue-based grants should be credited to the profit and loss account in the same period as the revenue expenditure to which they relate. Capital-based grants are made by reference to specified categories ofcapital expenditure and should be credited to the profit and loss account over the useful economic life of the asset to which they relate. Statement of Standard Accounting Practice 4, Accounting for Government Grants, gives guidance with respect to the treatment of grants.

Governmental accounting standards board (GASB) Is a nonprofit organization responsible for establishing and improving accounting and financial reporting standards for governmental units.

Grace and notice provision The provision in a loan agreement that a borrower who fails on the due date to meet either an interest obligation or capital repayment obligation or who fails to comply with an undertaking is not initially in default. This prevents the cross-default clause being invoked. The grace and notice provision is inserted into a loan agreement to avoid problems arising because of administrative mistakes, such as payments not being made on the correct day.

Grace period Is the period of time between your statement date and the due date.

Graduated Payment Mortgage A loan where the initial payments are lower than the amount needed to amortize the loan. Debt service grows each year till it reaches a set amount. Used to increase the affordability of a home or real estate investment.

Grantee Is the person or entity to whom property or assets are transferred.

Grantor Is the person or entity who transfers property or assets.

Green reporting (environmental accounting) A report by the directors of a company that attempts to quantify the costs and benefits of that company's operations in relation to the environment. Although there are a number of advocates of the practice, few companies disclose in their annual accounts and report information on the impact their activities have had on the environment. It is, however, a growing practice and reflects the concerns of society.

Greenmail Any amount a corporation pays to a shareholder to directly or indirectly buy back its stock.

Grey knight In a takeover battle, a counterbidder whose ultimate intentions are undeclared. The original unwelcome bidder is the black knight, the welcome counterbidder for the target company is the white knight. The grey knight is an ambiguous intervener whose appearance is unwelcome to all.

Grey market 1. Any market for goods that are in short supply. It differs from a black market in being legal; a black market is usually not.

2. A market in shares that have not been issued, although they are due to be issued in a short time. Market makers will often deal with investors or speculators who are willing to trade in anticipation of receiving an allotment of these shares or are willing to cover their deals after flotation. This type of grey market provides an indication of the market price (and premium, if any) after flotation. An investor who does not receive the anticipated allocation has to buy the shares on the open market, often at a loss.

Gross contribution Is the starting amount prior to any relevant deductions have been made to the gross amount, e.g., *Gross Contribution to Margin.*

Gross corporation tax The total corporation tax payable on the profits chargeable to corporation tax for an accounting period, before deduction of any advance corporation tax paid on distributions or income tax suffered on taxed income.

Gross dividend per share The total of the gross dividends paid by a company in a year divided by the total number of ordinary shares on which the dividend is paid.

Gross dividend The amount of a dividend prior to the deduction of tax. Gross dividend is therefore equal to the dividend payable plus the tax credit.

Gross domestic product (GDP) Is the value of all the goods and services produced by workers and capital located within a country (or region), such as the United States, regardless of nationality of workers or ownership. Domestic measures relate to the physical location of the factors of production; they refer to production attributable to all labor and property located in a country. The national measures differ from the domestic measures by the net inflow — that is, inflow less outflow — of labor and property incomes from abroad. Gross Domestic Product includes production within national borders regardless of whether the labor and property inputs are domestically or foreign owned.

Gross equity method A method of accounting for associates under which the investor shows on the face of the balance sheet the share of the net amount of the aggregate gross assets and liabilities; in the profit and loss account, the share of the turnover is noted.

Gross Income The beginning point for the determination of income, including income from whatever sources derived.

Gross Lease As opposed to a *net lease*, a gross lease is one where the tenant is responsible for either none of the increase in operating expenses of the building, or only the amount above a stop. If a *base or stop* is involved, the lease is sometimes known as a modified gross lease.

Gross margin Is the ratio of gross profit to sales revenue. (sometimes used as a synonym for gross profit). For a manufacturer, gross margin is a measure of a company's efficiency in turning raw materials into income; for a retailer it measures their markup over wholesale. GROSS MARGIN is gross income divided by net sales, expressed as a percentage.

Gross Margin percentage The gross margin from an income statement divided by net sales revenue.

Gross margin ratio (gross profit percentage) A ratio of financial performance calculated by expressing the gross margin as a percentage of sales. With retailing companies in particular, it is regarded as a prime measure of their trading success. The only ways in which a company can improve its gross margin ratio are to increase selling prices and/or reduce its cost of sales.

Gross national product (GNP) Is the total dollar value of all final goods and services produced for consumption in society during a particular time period. The GNP does include allowances for depreciation and indirect business taxes such as those on sales and property. Gross national product is the output of labor and property of US nationals regardless of the location of the labor and property. Gross National Product includes income earned by the factors of production (assets and labor) owned by a country's residents but excludes income produced within the country's borders by factors of production owned by nonresidents.

Gross negligence Is any action or an omission in reckless disregard of the consequences to the safety or property of another. Sometimes referred to as "very great negligence" and it is more then just neglect of ordinary care towards others or just inadvertence. Also known as the Latin term culpa lata.

Gross pay Is employee salary prior to the application of taxes and other deductions.

Gross profit margin analysis Indicates what the company's pricing policy is and what the true mark-up margins are. Calculated by: Revenue - Cost of Goods Sold / Revenue.

Gross profit margin on sales (GPM) Is one of the key performance indicators. The gross profit margin gives an indication on whether the average markup on goods and services is sufficient to cover expenses and make a profit. GPM shows the relationship between sales and the direct cost of products/services sold. It measures the ability of both to control costs and to pass along price increases through sales to customers. The gross profit margin should be stable over time. A persistent gradual decrease is likely to indicate that productivity needs to be increased to return profitability back to previous levels.

Gross receipts Is the total amount received prior to the deduction of any allowances, discounts, credits, etc.

Gross redemption yield (effective yield; yield to maturity) The internal rate of return of a bond bought at a specified price and held until maturity; it therefore includes all the income and all the capital payments due on the bond. The tax payable on the interest and the capital repayments is ignored.

Gross revenue Is income (at invoice values) received for goods and services over some given period of time.

Gross sales Is the total revenue at invoice value prior to any discounts or allowances.

Gross up To convert a net amount into its equivalent gross amount. For example, an amount payable net of 17.5% value added tax would be grossed up to the amount payable including 17.5% value added tax, i.e. by multiplying the net amount by 1.175.

Gross weight Is the weight of a shipment including packing material.

Group accounts Are the financial statements of a group of companies. These are usually presented in the form of *consolidated accounts*.

Group company A company that is a subsidiary undertaking or a holding company.

Group income A dividend paid by one group company to another, which is exempt from advance corporation tax. The dividends received are not franked investment income of the receiving company and are not subject to corporation tax.

Group Is a number of individual companies assembled together; often having some unifying relationship.

Group registration Registration for value added tax for a group of companies under common control. The business carried on by any group member is treated as that of the representative member. VAT is not charged on supplies between group members.

Group relief Relief available to companies within a 75% group as a result of which qualifying losses can be transferred to other group companies. The losses transferred are available to set against the other group members' profits chargeable to corporation tax, thus reducing the overall tax liability for the group. A 75% group, for group relief, exists if one company holds 75% or more of:

The ordinary share capital, and

The distributable income rights, and

The rights to the net assets in a winding-up.

Growth rate The amount of change over a period in some of the financial characteristics of a company, such as sales revenue or profits. It is normally measured in percentage terms and can be compared to the Retail Price Index, or some other measure of inflation, to assess the real performance of the company.

Guaranteed bond a bond issued by one party with payment guaranteed by another party. A common example is a bond issued by a subsidiary undertaking, which is guaranteed by the holding company.

Guaranteed minimum pension The earnings-related component of a state pension that a person would have been entitled to as an employee of a company, had that person not contracted out of the State Earnings-Related Pension Scheme (SERPS). Any private pension contract must pay at least the guaranteed minimum pension if it is to be an acceptable replacement of a SERPS pension.

Guaranty Legal arrangement involving a promise by one person to perform the obligations of a second person to a third person, in the event the second person fails to perform.

H

Hang seng index The index of stock prices used on the Hong Kong Stock Exchange. It is calculated on the arithemetically weighted index of 33 stocks.

Hard copy A printed copy of information as opposed to information stored in computer readable form.

Hard costs Is the purchase price of actual assets. For example, the purchase price of a new printing press would be the hard cost. The soft costs are additional fees for items like factoring-invoiced installation, prepaid and extended warranties, or service contracts for the new equipment.

Hard currency A currency that is commonly accepted throughout the world; they are usually those of the western industrialized countries although other currencies have achieved this status, especially within regional trading blocs. Holdings of hard currency are valued because of their universal purchasing power. Countries with soft currencies go to great lengths to obtain and maintain stocks of hard currencies, often imposing strict restrictions on their use by the private citizen.

Hardware A computer and associated physical equipment involved in data processing or communications functions as opposed to software (the computer programs that provide instructions the computer follows).

Hardware control Computer controls built into physical equipment by the manufacturer.

Harmonized system Is an internationally agreed upon classification system for trade. It provides code numbers to specify a goods classification; thereby making customs duty determination more predictable.

Harvesting strategy Making a short-term profit from a particular product shortly before withdrawing it from the market. This is often achieved by reducing the marketing support it enjoys, such as advertising, on the assumption that the effects of earlier advertising will still be felt and the product will continue to sell.

Hash total A control total that has no meaning in itself except for control, e.g., total social security numbers of employees paid.

Haulage The charge made by a haulier (haulage contractor) for transporting goods, especially by road. If the goods consist of a large number of packages (e.g. 100 tonnes of cattlefood packed in 2000 bags each weighing 50 kilograms) there will be a separate charge for loading and unloading the vehicle.

Head lease The main or first lease, out of which sub-leases may be created. For example, if A grants a 99-year lease to B and B then grants a 12-year lease of the same property to C, the 99-year lease is the head lease and the 12-year lease is a sub-lease.

Headcount Is the act of counting people in a certain way or in a particular group.

Headline earnings per share A form of the earnings per share provided by the Institute of Investment Management and Research following the issue of Financial Reporting Standard 3, which introduced a new basis for calculating earnings per share. The Institute figure includes all the trading profits and losses for the year, including interest and profits and losses from operations discontinued or acquired at any point during the year. Excluded from the figure are profits or losses from the sale or termination of a discontinued operation, from the sale of fixed assets or businesses, or from any permanent diminution in their value or write off. Abnormal trading items should be included in the figure but prominently displayed in a note if they are significant. Many companies disclose the headline earnings per share in addition to that required by Financial Reporting Standard 14, and the Financial Times uses the method for calculating the price/earnings ratio.

Health and safety commission A commission appointed by the Secretary of State for Employment to look after the health, safety, and welfare of people at work; to protect the public from risks arising from work activities; and to control the use and storage of explosives and other dangerous substances. It is composed of representatives from trade unions, employers, and local authorities with a full-time chairman. The Health and Safety Executive is a statutory body that advises the Commission and carries out its policies through 20 area offices. It includes HM Factory Inspectorate and a Medical Division, which itself includes the Employment Medical Advisory Service.

Hedge fund Is a special type of investment fund with fewer restrictions on the types of investments it can make. Of note is a hedge fund's ability to sell short. In exchange for the ability to use more aggressive strategies, hedge funds are more exclusive, i.e., fewer people, usually only the wealthy, are allowed to invest in hedge funds.

Hedge, In securities, is a transaction that reduces the risk of an investment.

Hedged funds Funding in which the managers invest in liquid instruments, such as currency and interest rate derivatives, with the aim of making profits from movements in foreign-exchange or bond markets.

Hedged Position A hedged position occurs if you own a second asset that should move in the opposite way the first asset would react to changes in the market. For example, you own a stock and a put and/or a call on the stock.

Hedges protect An entity against the risk of adverse price or interest-rate movements on its assets, liabilities, or anticipated transactions. A hedge avoids or reduces risk by counterbalancing losses with gains on separate positions.

Hedging An operation undertaken by a trader or dealer who wishes to protect an open position, especially a sale or a purchase of a commodity, currency, security, etc., that is likely to fluctuate in price over the period that the position remains open. For example, a manufacturer may contract to sell a large quantity of a product for delivery over the next six months. If the product depends on a raw material that fluctuates in price, and if the manufacturer does not have sufficient raw material in stock, an open position will result. This open position can be hedged by buying the raw material required on a futures contract; if it has to be paid for in a foreign currency the manufacturer's currency needs can be hedged by buying that foreign currency forward or on an option. Operations of this type do not offer total protection because the prices of spot goods and futures do not always move together, but it is possible to reduce the vulnerability of an open position substantially by hedging.

Buying futures or options as a hedge is only one kind of hedging; it is known as *long hedging*. In *short hedging*, something is sold to cover a risk. For example, a fund manager may have a large holding of long-term fixed income investments and is worried that an anticipated rise in interest rates will reduce the value of the portfolio. This risk can be hedged by selling interest-rate futures on a financial futures market. If interest rates rise the loss in the value of the portfolio will be offset by the profit made in covering the futures sale at a lower price.

Held to maturity Normally refers to a long term security (note or bond held for more than one year) that has a predetermined maturation event.

Herd basis An election to treat a production herd as a capital asset. The election is irrevocable and must be made within two years from the end of the first year of assessment or company accounting period higher-rate tax A higher rate of income tax than the basic rate. For 1999-2000 higher-rate tax is payable on taxable income, after personal allowances and other allowances, of £28,001 and over. The rate of tax is 40%.

Hidden asset Is any valued asset that is not included in the book value of a company. Companies have hidden assets such as intellectual property, or customer lists which are of great value, but not reflected in the book value.

Highlights Brief summaries of financial information often given some prominence in the annual accounts and report of a company. As there are no regulations covering their form and content there is considerable variety in the information they disclose. However, it is normal practice to show at the least the sales revenue, profits, earnings per share, and dividend for the current and previous financial year.

High-low method Is an algebraic procedure used to separate a semi-variable cost into the variable and fixed components. The method calls for using the extreme data points (highest and lowest x - y pairs) in the COST-VOLUME FORMULA y = a + bx; where a = fixed cost portion and b = the variable rate.

Hire and purchase agreement Is a contract (more fully called contract of hire with an option of purchase) in which a person hires goods for a specified period and at a fixed rent, with the added condition that if he shall retain the goods for the full period and pay all the installments of rent as they become due the contract shall determine and the title vest absolutely in him, and that if he chooses he may at any time during the term surrender the goods and be quit of any liability for future installments upon the contract. In the United States such a contract is generally treated as a conditional sale, and the term hire purchase is also sometimes applied to a contract in which the hirer is not free to avoid future liability by surrender of the goods. In England, however, if the hirer does not have this right the contract is a sale.

Hire purchase (HP) A method of buying goods in which the purchaser takes possession of them as soon as an initial instalment of the price (a **deposit)** has been paid; ownership is obtained when all the agreed number of subsequent instalments have been completed. A hire-purchase agreement differs from a credit-sale agreement and sale by instalments (or a deferred payment agreement) because in these transactions ownership passes when the contract is signed. It also differs from a contract of hire, because in this case ownership never passes. Hire-purchase agreements were formerly controlled by government regulations stipulating the minimum deposit and the length of the repayment period. These controls were removed in 1982. Hire-purchase agreements were also formerly controlled by the Hire Purchase Act, but most are now regulated by the Consumer Credit Act. In this Act a hire-purchase agreement is regarded as one in which goods are bailed in return for periodical payments by the bailee; ownership passes to the bailee if the terms of the agreement are complied with and the option to purchase is exercised.

A hire-purchase agreement often involves a finance company as a third party. The seller of the goods sells them outright to the finance company, which enters into a hire-purchase agreement with the hirer.

Historical cost A method of valuing units of stock or other assets based on the original cost incurred by the organization. For example, the issue of stock using first-in-first-out cost or average cost charge the original cost against profits. Similarly, the charging of depreciation to the profit and loss account, based on the original cost of an asset, is writing off the historical cost of the asset against profits. An alternative approach is the use of current cost accounting.

Historical cost accounting Is an accounting principle requiring all financial statement items to be based on original cost. It is usually based upon the dollar amount originally exchanged in an arm's-length transaction; an amount assumed to reflect the fair market value of an item at the transaction date.

Historical summary A voluntary statement appearing in the annual accounts and report of some companies in which the main financial results are given for the previous five to ten years.

Historical-cost convention A convention under which assets are carried in the books of account at their historical cost.

Hold Harmless An agreement where one party agrees to release another party from any legal liability that may occur as the result of a specific event.

Holdback The portion of a loan not paid out to the borrower until a certain requirement is completed. For example, a lender may release 10% of the total amount of a loan on completion of the foundation, an additional 15% when rough plumbing is in, etc.

Holding company (parent company; parent undertaking) A company that has subsidiary undertakings, forming part of a group of companies.

Holding company Is a company which owns or controls other companies. (Control can occur through the ownership of 50 per cent or more of the voting rights or through the exercise of a dominant influence.)

Holding gain A gain that results from the length of time an asset has been held rather than its use in the operations of a business. A holding gain is realized when the asset is sold but remains unrealized when the asset is still held.

Holding Period The time in which a taxpayer acquires property and the date on which it is sold.

Hope Scholarship Credit A maximum allowable credit of $1,500 per student for each of the first 2 years of post-secondary education. It is allowable after all additional requirements are met.

Horizontal financial analysis Allows comparison of one company's ratios to the ratios of other companies as well as to average industrial ratios and internal industrial deviation of these ratios.

Horizontal form The presentation of a financial statement in which the debits are given on one side of the statement and the credits on the other. In the case of a balance sheet, the fixed assets and circulating assets would be shown on the left-hand side of the statement and the capital and liabilities on the right-hand side.

Horizontal integration The combination of two or more companies in the same business, carrying out the same process or production, usually to reduce competition and gain economies of scale.

Hostile takeover Occurs when a company attempts to buy out another whether they like it or not. A hostile takeover can occur only through publicly traded shares, as it requires the acquirer to bypass the board of directors and purchase the shares from other sources. This is difficult unless the shares of the target company are widely available and easily purchased (i.e., they have high liquidity). A hostile takeover may presage a corporate raid.

Human capital Is the unique capabilities and expertise of individuals that are productive in some economic context.

Human-information processing (HIP) A study of the processes involved in decision making. The importance to the accountant is that an understanding of the way in which an individual uses information in the decision-making process should make it possible to determine the most appropriate information to be provided and the most suitable form.

Human-resource accounting (human-asset accounting) An attempt to recognize the human resources of an organization, quantify them in monetary terms, and show them on the balance sheet. A value is placed on such factors as the age and experience of employees as well as their future earnings power for the company. Although this approach has aroused some interest, in practice considerable difficulty has been met in quantifying the value of human resources. As a result human-resource accounting has failed to develop.

Hurdle rate Is a term used in the budgeting of capital expenditures meaning the REQUIRED RATE OF RETURN in a DISCOUNTED CASH FLOW analysis. If the *expected rate of return* on an investment is below the hurdle rate, the project is not undertaken. The hurdle rate should be equal to the INCREMENTAL COST OF CAPITAL.

Hybrid instrument Is a package containing two or more different kinds of risk management instruments that are usually interactive.

Hypothecation, In securities, is the pledging of securities to brokers as collateral for loans made to cover short sales or purchase securities. In banking, it is the pledging of property to secure a loan.

I

Ideal standard (ideal standard cost) A cost, income, or performance standard set in standard costing at such a level that it is only likely to be achieved under the most favourable conditions possible.

Identifiable assets and liabilities The assets and liabilities of a business that can be disposed of without disposing of the entire business.

Idle capacity ratio The ratio, sometimes expressed as a percentage, of the production capacity idle during a specified period to the capacity as expressed in the budget. Capacity can be measured in machine hours or labour hours and idle capacity is measured in the same way. The formula is: • (budgeted hours - actual hours worked × 100)/budgeted hours

Idle capacity The part of the budgeted capacity within an organization that is unused. It is measured in hours using the same measure as production. Idle capacity can arise as a result of a number of causes in all of which the actual hours worked is less than the budgeted hours available. The reasons can include non-delivery of raw materials, shortage of skilled labour, or lack of sales demand.

Idle capacity variance (capacity usage variance; fixed overhead capacity variance) A variance in standard costing that forms part of the fixed overhead total variance; it measures the gain or loss arising in an accounting period due to the actual hours worked being greater or less than those budgeted.

Idle time The time, usually measured in labour hours or machine hours, during which a production facility is unable to operate.

If-converted method In the USA, the method used for determining the dilution of convertible securities that are not common stock equivalents in the calculation of fully diluted earnings per share. The assumption is made that the securities are converted at the beginning of the year or the issue date if later.

Illiquid Is when cash flows generated by the firm are insufficient to meet the debt service. When speaking of money or an economy: being very liquid means it is driven by primarily by cash, checking/saving accounts, treasury bills, stocks and bonds, etc; while being very illiquid means it is driven primarily by human capital.

Image-processing Systems scan documents into electronic images for storage. Reference and source documents may not be retained after conversion.

Immateriality Is of complete irrelevance requiring no further consideration.

Immediate holding company A company that has a controlling interest in another company, even though it is itself controlled by a third company, which is the holding company of both companies.

Immediate Notice In insurance parlance, a clause requiring the insured to provide notice to the insurer (or a representative) as soon as reasonably possible following a loss.

Immovable Is a. not able to be moved or changed; or, b. assets consisting of land, buildings, or other permanent items.

Impaired assets, In banking, applies to all problem assets which banks hold, and is not limited to problem loans. In addition to loans, it also captures off- balance sheet exposures and assets which have come onto banks balance sheets through enforcement of security conditions.

Impaired goodwill Is the recognition of the reduction in value of the intangible asset known as goodwill.

Impairment A reduction in the recoverable amount of a fixed asset or goodwill below its carrying amount. Financial Reporting Standard 11 sets out the regulations for accounting for impairments by the process of conducting an impairment review.

Impairment of value Is the permanent decline in the value of an asset. The entry is to debit the loss account and credit the asset for the loss in utility.

Impairment review A review, which under Financial Reporting Standard 11, should be conducted by entities if events or changes in circumstances indicate that the carrying amount of a fixed asset or goodwill may not be recoverable. If intangible assets or goodwill are not amortized over a period of 20 years or less, impairment reviews must be conducted annually.

Impersonal account A ledger account that does not bear the name of a person. These accounts normally comprise the nominal accounts, having such names as motor vehicles, heat and light, and stock in trade.

Implicit contract theory The theory, introduced by several economists in the 1970s, that wage contracts contain an element of insurance for workers. Thus firms provide an implicit contract guaranteeing stable wages and employment in return for lower average pay, much as an insurance company charges a premium. This theory explains why, even in a recession, employers are reluctant to reduce wages creating the possibility of involuntary unemployment. Unfortunately it has subsequently been shown that over employment is just as likely an outcome as underemployment as a result of implicit contracts. However, the theory has provided many new insights into the operation of labour markets.

Implicit rate of interest Is when the stated interest rate is not indicative of the market rate at the time a note is negotiated, the value of the asset (cash or non-cash) or service exchanged for the note establishes the market rate.

Implied control performance deals with expected changes to data.

Implied Warranty A warranty that is assumed or assumed to be part of a contract despite the fact that it is not expressly stated.

Imposta valore aggiunto tax (IVA TAX), **I**n Italy, like most other European countries, Italy imposes a value added tax (VAT) on most goods and services purchased in the country. In Italy, the value added tax is known as the Imposta sul Valore Aggiunto or IVA. This tax is normally included or built into the price of most goods and services. The general rate of tax is 19% of the sale price.

Imprest account A means of controlling petty-cash expenditure in which a person is given a certain sum of money (float or imprest). When some of it has been spent, that person provides appropriate vouchers for the amounts spent and is then reimbursed so that the float is restored.

Thus at any given time the person should have either vouchers or cash to a total of the amount of the float.

Imprest basis, In cash accounts, means that the exact amount of fund expenditures is replaced periodically.

Imprest Funds Funds set aside as a cash reserve for expenditures expressly designated. Also, a petty cash fund.

Improvement Expenditure directed to a particular asset to improve its performance or useful life.

Imputation system Formerly the system in which the advance • corporation tax paid by a company making qualifying distributions was available to set against the gross corporation tax for the company. The shareholder receiving the dividend was treated as having suffered tax on the dividend and the tax credit was available to set against his or her own liability to tax.

Imputed costs Refer to the cost of an asset, service, or company that is not physically recorded in any accounts but is implicit in the product.

Imputed Interest If no interest or an unrealistic amount of interest is charged in a salve involving certain kinds of deferred payments, then the transaction will be treated as if the realistic rate of interest had been used. The difference between the realistic interest and the interest actually used is referred to as imputed interest.

Imputed value Is the logical or implicit value that is not recorded in any accounts, e.g., in the projection of annual figures, values are imputed for months for which the actual values are not yet known.

Incentive stock option the right given to employees to purchase a specified number of company shares at a specified price during a specified period. Only when the stock is sold by employees is it subject to tax.

Income and expenditure account An account, similar to a profit and loss account, prepared by an organization whose main purpose is not the generation of profit. It records the income and expenditure of the organization and results in either a surplus of income over expenditure or of expenditure over income. Such an organization's accounts do not use the accrual concept.

Income capitalization: First you must determine the capitalization rate - a rate of return required to take on the risk of operating the business (the riskier the business, the higher the required return). Earnings are then divided by that capitalization rate. The earnings figure to be capitalized should be one that reflects the true nature of the business, such as the last three years average, current year or projected year. When determining a capitalization rate you should compare with rates available to similarly risky investments.

Income gearing ratio Is Interest Expense / Operating Profit.

Income generating unit A group of assets, liabilities, and associated goodwill generating income that is largely independent of the reporting entity's other income strands.

Income Is money received by a person or organization because of effort (work), or from return on investments.

Income smoothing Refers to measures taken to reduce the probability of income shocks before they occur, and includes strategies like diversifying income sources; making low-risk production and employment choices; building up physical, human, and social assets; and ensuring good financial management.

Income standard In standard costing, a predetermined level of income expected to be generated by an item to be sold. An income standard is often applied to a budgeted quantity in order to determine the budgeted revenue.

Income Statement Summary of the effect of revenues and expenses over a period of time.

Income tax (IT) A direct tax on income. Income is not defined tax legislation; amounts received are classified under various headings or schedules and these schedules are subdivided into cases. In order to be classed as income an amount received must fall into one of these schedules. There are some specific occasions when the legislation requires capital receipts to be treated as income for taxation purposes, e.g. when a landlord receives a lump sum on the granting of a lease. In the UK the importance of • the distinction between income and capital has diminished since income and capital have been charged at the same rate. Prior to 6 April 1988 capital was charged at 30%, whereas the top rate of income tax was 60%. The tax is calculated on the taxpayer's taxable income, i.e. gross income less any income tax allowances and deductions. If the allowances and deductions exceed the gross income in a fiscal year, no income tax is payable.

Income tax allowances Allowances that may be deducted from a taxpayer's gross income before calculating the liability to income tax.

Income Tax Basis (1) For tax purposes, the concept of basis determines the proper amount of gain to report when an asset is sold. Basis is generally the cost paid for an asset plus the amounts paid to improve the asset less deductions taken against the asset, such as depreciation and amortization. (2) For accounting purposes, a consistent basis of accounting that uses income tax accounting rules while Generally Accepted Accounting Principles (GAAP) does not.

Income tax code A code number issued by the Board of Inland Revenue that takes account of the personal allowance available to the taxpayer together with any other additional allowances to which he or she is entitled, e.g. married couple's allowance. The code is used by the employer through the pay as you earn scheme to calculate the taxable pay using tables supplied by the Inland Revenue. The income tax code can also be used to tax benefits in kind, such as company cars, by reducing the code number and so collecting more tax each tax week or month. The code provides a means of ensuring that the tax due for the fiscal year is deducted from the employee's earnings in equal weekly or monthly amounts.

Income taxes payable Is income taxes due including current portion of deferred taxes.

Income theories Try to identify the real profit of an organization. The difficulty here is that you need to define whose income you are measuring, and that limiting income measurements to things that can be given a price devalues goods and services that are difficult or impossible to price.

Incompatible duties Internal control systems rely on separation of duties to reduce the chance of errors or fraud. Duties are incompatible if they should be separated for control. For example, one person should not be in a position to both embezzle funds and to hide the embezzlement by changing the recorded accountability.

Incompetence Is lack of physical or intellectual ability or qualifications.

Incomplete records Accounting records from which some details are missing. For example, some transactions may not have been recorded at all or some may have been partially recorded. To complete the records the cash book must be examined and, with the other information available, the missing items deduced.

Incorporated Is a legal entity that has undergone incorporation through approval by a state government.

Incorporation Is a legal process through which a company receives a charter and the state in which it is based allows it to operate as a corporation.

Incorporation of audit firms The forming of a limited company by an

Audit partnership to limit its liability against claims for negligence. This is permitted under the Companies Act (1989) and a limited company can be established, which is owned by the partnership. Although partners directly involved in an audit can be sued, incorporation should prevent other partners from losing everything they own merely because they are members of the partnership.

Incorrect acceptance The risk of incorrect acceptance is the risk the sample supports the conclusion that the recorded balance is not materially misstated when it is materially misstated.

Incorrect rejection The risk of incorrect rejection is the risk the sample supports the conclusion that the recorded balance is materially misstated when it is not materially misstated.

Incremental analysis A form of analysis used in decision making in which increases in the costs and revenues arising as the result of a decision are used to determine whether or not the decision is justified. For example, a decision further to process a product would only be justifiable if the incremental revenue is likely to exceed the incremental cost. Because costs and revenues may also fall as a result of a decision, differential analysis, which considers differential costs and revenues, is often preferred.

Incremental budget A budget prepared using a previous period's budget or actual performance as a basis, with incremental amounts added for the new budget period. This approach to budget preparation is not recommended as it often fails to take into account the changed operating conditions for the new budget period, which will not necessarily replicate those for the previous period.

Incremental cost Is the increase or decrease in costs as a result of one more or one less unit of output.

Incremental cost of capital Is the weighted cost of the additional capital raised in a given period. Weighted cost of capital, also called *composite cost of capital*, is the weighted average of costs applicable to the issues of debt and classes of equity that compose the firm's capital structure. Also called *marginal cost of capital.*

Incremental Is increasing gradually by regular degrees or additions.

Incur Is acquiring or getting into something undesirable or making oneself subject to; bring upon oneself; become liable to, e.g. to incur a cost or debt.

Incurred but not reported (IBNR), In insurance, losses occurring over a specified period that have not been reported to the insurer. IBNR losses are often calculated as a percentage of claims paid and claims outstanding and are reported in an insurer's annual report. Reinsurers establish IBNR reserves as a part of their rating plans under a facultative reinsurance treaty, lest an overly optimistic view of treaty results lead to further under-rating on a book of business. Example: Product liability losses are seldom reported during a policy year. This "tail" of claims will upset any rating plan, unless an IBNR reserve is established and factored into the profit picture.

Indefeasible Not liable to being annulled or voided or undone, usually in reference to an interest in real property (e.g., an indefeasible ownership interest in a piece of property).

Indenture Is an agreement between lender and borrower which details specific terms of the bond issuance. Specifies legal obligations of bond issuer and rights of bondholders. There is usually a indenture document spelling out the specific terms of a bond as well as the rights and responsibilities of both the issuer of the security and the holder.

Independence of auditors The fundamental principle that auditors must be, and must be seen to be, independent to enable them to behave with integrity and make objective professional and business judgments. Specific threats to independence include:

1. an overdependence upon the fees paid by an audit client, especially if fees are overdue;

2. any family or personal relationship between auditor and client;

3. any beneficial interest held by the auditor or the staff of the practice in shares or other investments or trusts involving the client;

4. any loan between an auditor and the client;
5. any services or hospitality offered by an audit client to the auditors;
6. any services other than the audit provided by the auditor to the client.

The independence of the auditor is strengthened by the Companies Act regulation of the qualification of auditors and by conferring certain rights on the auditor. The professional audit bodies give ethical guidance designed to deal with each of the above situations.

Independence Standard Board (ISB) This is the private sector standard-setting body governing the independence of Auditors from their public company clients. It came about from discussions between the AICPA, other accounting representatives and the SEC.

Independent financial adviser (IFA) A person defined under the Financial Services Act (1986) as an adviser who is not committed to the products of any one company or organization. Such a person is licensed to operate by one of the Self-Regulating Organizations or recognized professional bodies. With no loyalties except to the customer, the IFA must offer best advice from the whole market place. Eight categories of IFA exist, grouped into four main areas: advising on investments; arranging and transacting life assurance, pensions, and unit trusts; arranging and transacting other types of investments; and management of investments. All licensed independent financial advisers contribute to a compensation fund for the protection of their customers.

Independent In all matters relating to the assignment, an independence in mental attitude is to be maintained by the auditors. This means freedom from bias, which is possible even when auditing one's own business (independence in fact). However, it is important that the auditor be independent in appearance (that others believe the auditor is independent).

Independent projects Projects that are independent of each other in a comparative appraisal. Such projects are not mutually exclusive projects, as it is possible to pursue all of them if circumstances permit.

Independent taxation A system in which married women are taxed separately from their husbands.

Index stock Is a security listed on a stock index.

Indexation 1. The policy of connecting such economic variables as wages, taxes, social-security payments, annuities, or pensions to rises in the general price level .This policy is often advocated by economists in the belief that it mitigates the effects of inflation. In practice, complete indexation is rarely possible, so that inflation usually leaves somebody worse off (e.g. lenders, savers) and somebody better off (borrowers).

2. An adjustment to take account of the rise in the Retail Price Index over the period of ownership of an asset. Indexation is applied to the cost, or 31 March 1982 value, of an asset. The indexed cost, or indexed 31 March 1982 value, is deducted from the proceeds of sale on disposal of the asset, in order to establish the chargeable gain for capital gains tax purposes. Indexation was introduced to eliminate the part of the gain arising from inflation.

Indexation allowance An allowance used to accommodate a rise in the Retail Price Index (RPI) over the period of ownership of an asset or since 1 April 1998, whichever is the sooner, when calculating gains or losses for capital gains tax. The indexation allowance is the product of the cost of the asset and the indexation factor. This factor is calculated as:

$(R_2 - R_1)/R_1$,

where R_2 is the RPI in the month of disposal or April 1998 and R1 is the RPI in the month of acquisition.

Indexation was replaced by taper relief from 6 April 1998.

Index-linked bond Provides a secure investment in real terms, as the coupon payments and the redemption proceeds are linked to movements in the RPI (the Retail Prices Index).

Index-linked gilt A gilt-edged security in which the government has an obligation to increase both interest and redemption payments pro rata to increases in the Retail Price Index. Interest payments are calculated using the ratio of the RPI for the start date to RPI for the end date of the interest period.

Indifference curve, In microeconomics, an indifference curve is a graph showing combinations of two goods to which an economic agent (such as a consumer or firm) is indifferent, that is, it has no preference for one combination over the other.

Indifference point Is that point on the indifference curve where the compared values intersect.

Indirect cost Is that portion of cost that is indirectly expended in providing a product or service for sale (cannot be traced to a given cost object in an economically feasible manner) and is included in the calculation of COST OF GOODS SOLD, e.g. rent, utilities, equipment maintenance, etc. Opposite of direct cost.

Indirect costs (**indirect expenses)** Expenses that cannot be traced directly to a product or cost unit and are therefore overheads . As some indirect product costs may, however, be regarded as cost centre direct costs, the indirect cost centre costs are usually those costs requiring apportionment to cost centres in an absorption costing system.

Indirect Costs Costs that can't be directly related to the cost objective or a product.

Indirect labour cost The wages, bonuses, and other remuneration paid to indirect labour.

Indirect labour Personnel not directly engaged in the production of a product or cost unit manufactured by an organization. Examples of indirect labour include maintenance personnel, cleaning staff, and senior supervisors, such as foremen.

Indirect materials cost The expenses incurred in providing indirect materials.

Indirect materials Those materials that do not feature in the final product but are necessary to carry out the production, such as machine oil, cleaning materials, and consumable materials.

Indirect method The method used for a cash-flow statement in which the operating profit is adjusted for non-cash charges and credits to reconcile it with the net cash flow from operating activities.

Indirect shareholding Is when one entity directly holds shares of another entity that owns shares of a third but different entity, for example, Shareholder A would have an indirect shareholding of Company C if Shareholder A directly owns shares of Company B while Company B owns shares of Company C.

Indirect taxation The principal indirect tax is value added tax, which is paid by traders as goods or services enter into the chain of production, but which is ultimately borne by the consumer of the goods or services. One of the advantages of indirect taxes is that they can be collected from comparatively few sources while their economic effects can be widespread.

Individual Retirement Account (IRA) An IRA is a personal savings plan that allows an individual to make cash contributions per year dependent on the individual's adjusted gross income and participation in an employer's retirement plan. Under a traditional IRA these earnings are not taxable until the time of withdrawal from the plan.

Inducement Is a reward for a specific behavior, designed to encourage that behavior; also called incentive. To provide the first months rent free would be a "lease inducement".

Inductive accounting theory (scientific method) Assumes accounting standards are somewhat like evolution of a species in nature — survival of the fittest. It relies heavily upon controlled experimentation (e.g., behavioral accounting research) and statistical testing (e.g., capital markets "events" studies of the impact of accounting information on market prices and volume of transactions).

Industrial buildings Factories and ancillary premises used for manufacturing a product or for carrying on a trade in which goods are subjected to any process. For qualifying buildings there is a special category of capital allowance, known as industrial-buildings allowance. The writingdown allowance of 4% is calculated on a straight-line basis. The allowance is based on the cost of the building including the cost of preparing the land, but excluding the cost of the land itself and the cost of the non-industrial parts, e.g. offices. If the cost of any non-industrial parts is less than 25% of the total cost of the building, the costs of the non-industrial parts are included for the purpose of calculating the industrial-buildings allowance.

Industrial development bond In the USA, a debt issued by a municipality to finance assets, which are then leased to private industrial businesses in order to promote local economic development.

Industrial Property Form An all-risk or specific peril type of insurance for manufacturers or businesses engaged in processing.

Industrial revenue bond (I.R.B.) Is a bond issued by local government agencies in favor of corporations.

Industry analysis Includes, but is not limited to: a. Definition of the industry; b. Industry Life Cycle - growth, maturity or decline; c. Industry History - how old is the industry; d. In-depth historical financial performance ratio analysis; e. Industry Trends - cyclical or seasonal, increased competition etc.; f. Industry Influential Factors - does economy, government, or competition effect industry; g. Primary Competitors along with entry risk and barriers to entry; and, h. Projected Industry Sales - total sales in the industry.

Industry Is the people or companies engaged in a particular kind of commercial enterprise.

Industry segment A distinguishable component of an organization that provides a separate product or service or a separate group of related products or services.

Ineligible group A group of companies that does not qualify for an exemption (e.g. a medium-sized company filing exemption) because a member of the group is a non-qualifying company for that particular exemption. For example, if a public limited company or a bank is a member of a group all the companies in the group are ineligible for medium-sized company filing exemption.

Inflation accounting A method of accounting that, unlike historical cost accounting, attempts to take account of the fact that a monetary unit (e.g. the pound sterling) does not have a constant value; because of the effects of inflation, successive accounts expressed in that unit do not necessarily give a fair view of the trend of profits. The principal methods of dealing with inflation have been current cost accounting and current purchasing power accounting.

Inflation accounting Is a system of accounting which, unlike *historical cost accounting*, takes into account changing prices.

Inflation adjustment Is whenever any figure is adjusted for inflation/deflation. It simply means that all fluctuations in price (upward or downward) that are directly attributable to inflation/deflation are reflected into that figure through either adding or subtracting the amount that is directly caused by inflation/deflation.

Inflation Endorsement A clause in a homeowners policy where the coverage is automatically increased periodically to account for changes in a price index.

Inflation Is an increase in the general price level of goods and services; alternatively, a decrease in the purchasing power of the dollar or other currency.

Information / informational return Is one of many returns that only communicates to the Internal Revenue Service information relevant to tax liability and does not compute the actual liability of any taxpayer or accompany the actual payment of tax; used for sale of property, dividends, and others (e.g., W-2 and Forms 1099).

Information inductance The extent to which a person's behaviour is affected by the information they are required to communicate. For example, the directors of a company required to produce an annual report and accounts . may emphasize the favourable aspects of the financial statements and may even adopt creative accounting.

Information intermediaries Individuals and groups who obtain, analyse, and interpret information, communicating their findings to others. An example is the analyst who uses the financial statements and other information relating to a company to advise clients whether to buy, hold, or sell the company's shares. The information intermediary will make use of not only the annual accounts and report, preliminary announcements of profits, and interim financial statements but also any other financial or non-financial information that is available, including that not on the public record, although this could lead to the accusation of insider dealing.

Information overload The increasing amount of financial information that companies are required to provide, some of which is beyond the user's ability to assimilate, analyse, and interpret. Because it was considered that full annual accounts and reports may present an information overload, the Department of Trade and Industry have introduced summary financial statements.

Information system A system that gathers information. It may process the information and present it in a format suitable for decision making.

Information systems consist of infrastructure (physical and hardware components), software, people, procedures (manual and automated), and data.

Information technology (IT) The use of computers and other electronic means to process and distribute information. Information can be transferred between computers using cables, satellite links, or telephone lines. Networks of connected computers can be used to send electronic mail or to interrogate databases, using such systems as Viewdata and Teletext. These systems also enable electronic transfer of funds to be made between banks, as well as telebanking and teleshopping from the home. The same technology is used in the entertainment industry to provide cable and satellite television and videotape and laser disk films.

Information theory Is a branch of mathematics that overlaps into communications engineering, biology, medical science, sociology, and psychology. The theory is devoted to the discovery and exploration of mathematical laws that govern the behavior of data as it is transferred, stored, or retrieved.

Infrastructure (social overhead capital) The goods and services, usually requiring substantial investment, considered essential to the proper functioning of an economy. For example, roads, railways, sewerage, and electricity supply constitute essential elements of a community's infrastructure. Since the infrastructure often possesses many of the characteristics of public goods, it is often argued that they should be funded, partly if not wholly, by the government by means of taxation.

Infrastructure Is the resources (as personnel, buildings, or equipment) required for an activity.

Inherent goodwill The goodwill presumed to be present in an existing business, although it has not been evidenced by a purchase transaction. Under Financial Reporting Standard 10, inherent goodwill should not be recognized on the balance sheet.

Inherent limitation The potential effectiveness of an entity's internal control is subject to inherent limitations. Human fallibility, collusion, and management override are examples.

Inherent risk The susceptibility of a balance or transaction class to error that could be material, when aggregated with other errors, assuming no related internal controls.

Inherent vice A defect or weakness of an item, especially of a cargo, that causes it to suffer some form of damage or destruction without the intervention of an outside cause. For example, certain substances, such as jute, when shipped in bales, can warm up spontaneously, causing damage to the fibre. Damage by this cause is excluded from most cargo insurance policies as an excepted peril.

Inheritance As distinguished from a bequest or devise, an inheritance is property acquired through laws of descent and distribution from a person who dies without leaving a will. The value of property inherited id excluded from a taxpayers gross income, but if the property inherited produces income it is included in gross income. A taxpayer's basis in inherited property is the fair market value at the time of death.

Inheritance tax (IHT) A tax introduced to replace capital transfer tax. Inheritance tax is chargeable on the death of an individual on all property, wherever it is situated. It is also charged on potentially exempt transfers made within seven years of death.

Initial Public Offering (IPO) When a private company goes public for the first time.

Initial yield The gross initial annual income from an asset divided by the initial cost of that asset.

Initiate Is to set going by taking the first step, e.g., initiate contract negotiations.

In-kind Is the value of goods or services provided for which money would have otherwise been paid.

Input control Computer controls designed to provide reasonable assurance that transactions are properly authorized before processed by the computer, accurately converted to machine readable form and recorded in the computer, that data files and transactions are not lost, added, duplicated or improperly changed, and that incorrect transactions are rejected, corrected and, if necessary, resubmitted on a timely basis.

Input tax Value added tax paid by a taxable person on purchasing goods or services from a VAT-registered trader. The input tax, excluding irrecoverable input VAT, is set against the output tax in order to establish the amount of VAT to be paid to the tax authorities.

Inquiry A procedure that consists of seeking information, both financial and non financial, of knowledgeable persons throughout the company. It is used extensively throughout the audit and often is complementary to performing other procedures. Inquiries may range from formal written inquiries to informal oral inquiries.

Insertion order, In marketing, is an agreement that specifies aspects related to an advertising campaign.

Inside director In the USA, an employee of a company who has been appointed to the board of directors.

Insider dealing (insider trading) Dealing in company securities with a view to making a profit or avoiding a loss while in possession of information that, if generally known, would affect their price. Under the *Companies Securities (Insider Dealing) Act* (1985) those who are or have been connected with a company (e.g. the directors, the company secretary, employees, and professional advisers) are prohibited from such dealing on or, in certain circumstances, off the stock exchange if they acquired the information by virtue of their connection and in confidence. The prohibition extends to certain unconnected persons to whom the information has been conveyed.

Insider trading Is the trading, primarily of securities, by management or others who have special access to unpublished information. If the information is used to illegally make a profit, there may be large fines and possible jail sentences.

Insolvency administration order A court order for the administration of the insolvent estate of a deceased debtor in bankruptcy.

Insolvency Occurs when a business is unable to pay debts as they fall due.

Insolvency practitioner A person authorized to undertake insolvency administration as a liquidator, provisional liquidator, administrator, administrative receiver, or nominee or supervisor under a voluntary arrangement. Insolvency practitioners are members of the Insolvency Practitioners Association.

Insolvency The inability to pay one's debts when they fall due. In the case of individuals this may lead to bankruptcy and in the case of companies to liquidation. In both of these cases the normal procedure is for a specialist, a trustee in bankruptcy or a liquidator, to be appointed to gather and dispose of the assets of the insolvent and to pay the creditors. Insolvency does not always lead to bankruptcy and liquidation, although it often does. An insolvent person may have valuable assets that are not immediately realizable.

Inspect (inspection) As an audit procedure, to scrutinize or critically examine a document. As part of a CPA firm's quality control system, to monitor the effectiveness of the system.

Inspector general In the USA, the federal office that performs audit and investigative activities on federal agencies, making periodic reports to Congress.

Inspector of Taxes A civil servant responsible to the Board of Inland Revenue for issuing tax returns and assessments, the conduct of appeals, and agreeing tax liabilities with taxpayers.

Instability index of earnings A measure of the deviation between actual profits of a company and trend profit. The higher the index, the greater the instability of a company's profitability.

Installment Method Tax accounting method of reporting gain on the sale of an asset exchanged for a receivable. In general, the gain is reported as the note is paid off.

Installment sale Is selling property and receiving the sales price over a series of payments, instead of all at once at the close of the sale, is an installment sale. As the seller, unless you elect out, you will report the gain on that transaction as you receive it through the series of payments. As the buyer, you will usually pay interest on the unpaid balance.

Institutional investor An organization, such as a bank, insurance company, or pension fund, that trades in very large volumes of securities. Institutional investors tend to dominate stock exchanges in many countries.

Instrument (**financial instrument)** An agreement in the form of a document that sets out the terms and conditions of an order to pay or promise to pay, or a certificate of indebtedness. In company accounts it is essential to distinguish between capital instruments and equity; the regulations are given in Financial Reporting Standard 4, Capital Instruments.

Insurance company A company that carries on an insurance business, to which the *Insurance Companies Act* (1982) applies, or an insurance group as defined in the *Companies Act* (1985).

Intangible fixed assets Fixed assets of a non-monetary nature that have no physical substance. The accounting treatment for intangible assets has been a controversial topic and assets, such as brands and publication titles, have appeared on the balance sheets of a number of well-known companies. By identifying such items as intangible assets, separate from goodwill, they did not fall under the requirements of Statement of Standard Accounting Practice 22, in which goodwill has either to be written off immediately to reserves or amortized over a period of years to the profit and loss account. Financial Reporting Standard 10, Goodwill and Intangible Assets, has now been issued and this resolves many of the controversies. Under the *Companies Act* (1985) intangible assets is a main heading, which should appear on the face of the balance sheet. The following subheadings are required but may be shown either on the face of the balance sheet or in the notes: development costs; concessions, patents, licences, trademarks, and similar rights and assets; goodwill; payments on account.

Insurance claim Is a written notification to an insurance company requesting payment of an amount due under the terms of the policy.

Insured Bonds Generally, municipal bonds that are covered by insurance against default (loss of interest or principal). The insurance premium is paid by the issuer. Insured bonds generally have a lower yield because of this protection.

Intangible Asset An asset that is a right and nonphysical, as opposed to equipment, buildings, etc which are tangible assets. Examples include copyrights, patents, trademarks, goodwill, capitalized advertising costs, computer software, leases, licenses, etc.

Intangible asset Is an asset that is not physical in nature. Examples are things like copyrights, patents, intellectual property, or goodwill. An intangible asset is the opposite of tangible asset.

Intangible Costs Expenditures incurred to create an intangible asset. For example, legal fees to negotiate a lease, the cost to acquire a license, etc.

Intangible property A property that cannot be possessed physically but that confers on its owner a legally enforceable right to receive a benefit, for example money.

Intangibles (NET) Are intangible assets, including goodwill, trademarks, patents, catalogs, brands, copyrights, formulas, franchises, and mailing lists, net of accumulated amortization.

Integrated accounts Accounting records kept in one set of books that contains both the financial accounts and the cost accounts of an organization in an integrated form. This avoids the necessity of reconciling separate financial and cost books and at the same time ensures that both records are based on the same data.

Integrated financial model Is normally a spreadsheet based financial model that integrates all projected revenues and costs from all activity into financial performance pro-forma projections over time. Dependent upon the complexity of the model, the output can be at a very high level (non-complex) to highly granular output (higher degree of complexity).

Integrated Operations Two or more business operations which are conducted as though they were one single economic unit.

Integrated test facility (ITF) An embedded audit facility consisting of program, code, or additional data provided by the auditor and incorporated into the computer element of the client's accounting system. Using ITF, a fictitious entity is created, for example a customer, within the context of the regular application. Transactions are then posted to the fictitious entity together with regular transactions and the results produced by the normal processing cycle are then compared with predetermined results. Such entries should be reversed at defined cut-off dates to ensure that they are not included in the financial reports. ITF enables an auditor and the client's management to check continuously on the internal processing functions.

Integrity Consistent adherence to an ethical code. If client management lacks integrity the auditor must be more skeptical than usual.

Intellectual capital Intellectual capital bundles knowledge resources (how the 'production functions", that is the constellation of employees, users, processes and technologies, work). Intellectual capital enables a company to make a difference to users via its knowledge resources.

Intellectual capital statement (ICS) Provides: a. Insights into the user's situation (= the customers situation); b. Insight into the colleague's skills and improvements of teamwork; c. Insight in the practical skills e.g. craftsmanship: from knowing how to develop and improve production methods to be capable of handling information technology etc.; d. Insights in the know-how represented in the company's processes and systems and how these can be used to improve the quality of products or services; e. Insight in the motivation or commitment as regards the further development of the company's products and services; f. Insight in the future needs for knowledge; g. Insight in the skills, competencies and qualification that can make a difference to the company.

Intellectual property Is intangible property that is the result of creativity, e.g. patents, trademarks or copyrights.

Intensity drivers Are used to directly charge for the resources used each time an activity is performed.

Inter-american accounting association A professional organization concerned with the technical aspects of accounting in the Americas; it meets once every two to three years.

Interbank market 1. The part of the London money market in which banks lend to each other and to other large financial institutions. The London Inter Bank Offered Rate (LIBOR) is the rate of interest charged on interbank loans. Trading is over-the-counter and usually through brokers and dealers. The sums are large but the periods of the loans are very short, often overnight. 2. The market between banks in foreign currencies, including spot currencies and forward options.

INTERCOMPANY or INTERCORPORATE Means occurring between companies.

Intercompany transactions (intragroup transactions) Transactions between the companies in a group. These may be in the form of charges or the transfer of goods or services. It is important in the preparation of consolidated financial statements that such transactions are eliminated or suitable adjustments made as they do not reflect transactions between the group and external parties.

Interest cover (fixed-charge-coverage ratio) A ratio showing the number of times interest charges are covered by earnings before interest and tax. For example, a company with interest charges of £12 million and earnings before interest and tax of £36 million would have its interest covered three times. The ratio is one way of analysing gearing and reflects the vulnerability of a company to changes in interest rates or profit fluctuations. A highly geared company, which has a low interest cover, may find that an increase in the interest rate will mean that it has no earnings after interest charges with which to provide a dividend to shareholders.

Interest earnings Is amounts from interest on all interest-bearing deposits and accounts; accrued interest on investment securities sold; interest on funds held for construction; and interest related public debt for private purposes. Excludes interest on deposits and investments of employee retirement and other insurance trust funds; dividends from investments; accrued interest on bonds issued by the government; recorded profits on sale of investments; and accrued interest on the purchase of investments.

Interest expense Is the cost of borrowing funds in the current period. It is shown as a financial expense item within the income statement.

Interest Payment for the use or forbearance of money.

Interest rate Is the rate of interest charged for the use of money, usually expressed as an annual rate. The rate is derived by dividing the amount of interest by the amount of principal borrowed. For example, if a bank charged $100 a year to borrow $1,000, the interest rate would be 10%. Interest rates are quoted on bills, notes, bonds, credit cards and many kinds of consumer and business loans. Rates in general tend to rise with inflation and in response to the Federal Reserve raising key short-term rates. A rise in interest rates has a negative effect on the stock market because investors can get more competitive returns from buying newly issued bonds instead of stocks. It also hurts the secondary market for bonds because rates look less attractive compared to newer issues.

Interest rate swap (IRS) Is a contractual arrangement between two counter-parties who agree to exchange interest payments on a defined principal amount for a fixed period of time.

Interest rate swaption Is an option on an interest rate swap. It gives the holder the right but not the obligation to enter into an interest rate swap at a specific date in the future, at a particular fixed rate and for a specified term.

Interest receivable account A ledger account that is credited with interest receivable (double entry to debtors until received and then to the bank). It is credited to the profit and loss account for the period.

Interest-bearing Means paying interest.

Interested party Is any person that has a real and direct interest in any proceeding or action being proposed or taken.

Interest-in-possession trust A type of fixed-interest trust in which there is an entitlement to the income generated by the trust assets. The beneficiaries of an interest-in-possession trust, the life tenants, are entitled to the income arising for a fixed period or until their death. The capital in the trust then passes absolutely to the remainderman.

Interest-Only Loan A loan where the borrower pays only interest and not principal during the course of the loan. Some loans have an interest-only period, then require payment of interest and principal. The total amount borrowed is payable as a balloon payment at maturity. Sometimes referred to as a bullet loan.

Interest-rate guarantee An indemnity sold by a bank, or similar financial institution, that protects the purchaser against the effect of future movements in interest rates. It is similar to a forward-rate agreement, but the terms are specified by the customer.

Interest-rate risk The risk that the value of an asset or liability can vary during its life as a result of movements in interest rates.

Interfirm comparison The process carried out by some independent bodies and trade associations in which the accounts and statistical data of comparable organizations are subjected to a ratio analysis in order to compare the ranges of performance in various areas of operation of the different organizations.

Interfund loan Is an authorized (usually) short term loan from one fund to another.

Interim audit Is an audit conducted during the fiscal year usually as a means of minimizing the work and time involved in concluding the audit after the fiscal year. A corporation might have an interim audit covering the first nine months of the fiscal year so that at the end of the fiscal year most of the auditing will focus on the last three months of the fiscal year thus allowing for a comprehensive audit and early completion of the audit reports. An interim audit does not usually yield any formal reports from the external auditors.

Interim dividend a dividend paid midway through a financial year.

Interim dividend Is the declaration and payment of a dividend prior to annual earnings determination.

Interim Financial information is financial statements of a time period less than a full year.

Interim financial statements (interim accounts; interim report) Financial statements issued for a period of less than a financial year. Although there are provisions under the Companies Act that refer to interim accounts in certain circumstances relating to the distribution of dividends, there are no legal requirements obliging companies to produce interim accounts on a regular basis. The interim financial statement must be either sent to the holders of the company's listed

Securities or advertised in at least one national newspaper not later than four months after the end of the period to which it relates. A copy of the interim financial statements must also be sent to the Company Announcements Office and to the competent authority of each other state in which the company's shares are listed. The vast majority of companies choose to send the interim statement to shareholders with a brief announcement of the headline figures reported in the press. There is no requirement for the interim statements to be audited. Although the stock exchange regulations require mainly profit information, there is a trend for the larger companies to also provide balance sheet and cash-flow statements. The Accounting Standards Board has issued a guide to best practice for interim reports.

Interlocking accounts An accounting system that keeps cost accounting and financial accounting information separately, regularly reconciling the two by use of control accounts.

Intermediate holding company A company that is both a holding company of one group and a subsidiary undertaking of a larger group. It may qualify for exemption from publishing consolidated financial statements as a holding company of the smaller group.

Intermediation The activity of a bank, similar financial institution, broker, etc., in acting as an intermediary between the two parties to a transaction; the intermediary can accept all or part of the credit risk or the other commercial risks.

Internal audit An audit that an organization carries out on its own behalf, normally to ensure that its own internal controls are operating satisfactorily. Whereas an external audit is almost always concerned with financial matters, this may not necessarily be the case with an internal audit; internal auditors may also concern themselves with such matters as the observation of the safety and health at work regulations or of the equal opportunities legislation. It may also be used to detect any theft or fraud .

Internal auditor An auditor who is a member of an internal audit department of a company.

Internal control The measures an organization employs to ensure that opportunities for fraud or misfeasance are minimized. Examples range from requiring more than one signature on certain documents, security arrangements for stock-handling, division of tasks, keeping of control accounts, use of special passwords, handling of computer files, etc. It is one of the principal concerns of an internal audit to ensure that internal controls are working properly so that the external auditors can have faith in the accounts produced by the organization. Internal control should also reassure management of the integrity of its operations.

Internal control questionnaire (ICQ) A document used by an auditor to assess the internal control system of an organization. Questions will be tailored to the cycle being audited; for example, the sales or revenue cycle will check that sales are authorized, goods are invoiced, invoices are properly prepared, recorded, and supported, and payment is received at the correct time. The questionnaire will be used by the auditor to identify strengths and weaknesses in the system, which can be used to predict the errors or irregularities that could occur. These predictions enable the auditors to design substantive tests to discover and quantify errors.

Internal control risk The risk that material errors will neither be prevented or detected by the internal control system of a company.

Internal control system A system of controls, both financial and nonfinancial, set up by the management of a company to carry out the business of the company in an orderly and efficient manner. The system should ensure that management policies are adhered to, assets are safeguarded, and the records of the company's activities are both complete and accurate. The individual components of an internal control system are the individual internal controls.

Internal rate of return (IRR) An interest rate that gives a net present value of zero when applied to a projected cash flow. This interest rate, where the present values of the cash inflows and outflows are equal, is the internal rate of return for a project under consideration, and the decision to adopt the project would depend on its size compared with the cost of capital. The approximate IRR can be computed manually by linear interpolation but most computer spreadsheet programs now include a routine enabling the IRR to be computed quickly and accurately. The IRR technique suffers from the possibility of multiple solution rates in some circumstances.

International Accounting Standards Accounting standards issued by the International Accounting Standards Committee. Some of the advantages claimed for international standards are that financial statements prepared in different countries will be more comparable, multinational companies will find preparation of their accounts easier, listing on different stock exchanges can be achieved more simply, and financial statements will be of greater use to users. However, international standards are not mandatory; moreover, some permit such a degree of flexibility in accounting treatments that comparability is impaired. Countries in which the setting of accounting standards is well established have national accounting standards that usually deal with the same topics as international standards. Some countries, with a less well-developed procedure for setting standards, adopt international accounting standards or use them as a model for preparing their own. Over recent years the importance of global capital markets has strengthened international accounting standards.

International Accounting International Association of Book-keepers A professional association of book-keepers. Members must have passed, or be exempt from, the Association's exams and have completed a period working in a book-keeping position. There are three levels of membership: Licentiate (LIAB), Associate (AIAB), and Fellow (FIAB).

International Auditing Practices Committee (IAPC) A standing committee of the International Federation of Accountants. It has a specific responsibility to issue exposure drafts and guidelines on auditing and related services. It also issues International Standards on Auditing (ISA). The members of the committee are nominated by the member bodies in the countries selected by the Council of the International Federation of Accountants. The representatives designated by the member body or bodies to serve on the IAPC must be members of one of the bodies. To obtain a broad spectrum of views, whenever possible, the subcommittees of IAPC include representatives from countries that are not members of IAPC.

International Federation of Accountants (IFAC) A body formed in 1977 with the objective of developing an international accountancy profession with harmonized standards. Based in the USA, it has a membership of accounting bodies representing some 80 countries. It works through a number of committees responsible for education, ethics, financial and management accounting, and public-sector and international auditing practices. Although it does not issue standards, the Federation supports International Accounting Standards and makes a significant contribution to the annual running costs of the International Accounting Standards Committee.

International Monetary Fund (IMF) A specialized agency of the United Nations established in 1945 to promote international monetary cooperation and expand international trade, stabilize exchange rates, and help countries experiencing short-term balance of payments difficulties to maintain their exchange rates. The Fund assists members by supplying the amount of foreign currency it wishes to purchase in exchange for the equivalent amount of its own currency. The member repays this amount by buying back its own currency in a currency acceptable to the Fund, usually within three to five years. The Fund is financed by subscriptions from its members, the amount determined by an estimate of their means. Voting power is related to the amount of the subscription the higher the contribution the higher the voting rights. The head office of the IMF is in Washington.

Inventory accounting The accounting records and systems used for the ordering, receipt, issuing, and valuation of materials bought by an organization for stock. It includes the recording of the entries on bin cards and in the stock ledger as well as the procedures adopted to carry out an effective stocktaking

Inventory control (**stock control)** A control system to ensure that adequate but not excessive levels of stocks are maintained by an organization, having regard to consumption levels, delivery lead times, reorder levels, and reorder quantities of each commodity.

Inventory turnover (**stock turnover)** A ratio that measures the number of times items of stock are used annually. To obtain an accurate measure of stock turnover the following formula is used for each commodity:

Number of units used per annum/number of units in stock.

The number of units in stock may be taken at the start or the end of the year or may be the average of both. Because the information required for this ratio is only likely to be available from the internal management accounts, a different formula using final accounts figures is often used as an overall measure of inventory turnover: Sales or cost of sales per annum/value of stocks.

Again the value of stocks may be taken at the start or the end of the period or may be an average of both. The second formula tends to be inaccurate and is an average of the turnover of all stocks.

Interim Financing Short-term financing that's conditional upon securing intermediate or long-term financing. Also known as a bridge loan.

Interim statement Is a financial report covering only a portion of a fiscal year (prepared by accountants, but usually unaudited). Quarterly statements from publicly traded companies are one example of an interim statement. Interim statements are not as detailed or as exact as annual statements.

Intermediary is the person or institution empowered to be the intermediary in making investment decisions for others. Examples: banks, savings and loan institutions, insurance companies, brokerage firms, mutual funds, and credit unions.

Intermediation cost, In finance, is the cost involved in the placement of money with a financial intermediary. The person or institution empowered as the intermediary to make investment decisions for others. Examples: banks, savings and loan institutions, insurance companies, brokerage firms, mutual funds, and credit unions.

Internal audit Is an independent appraisal function established within an organization to examine and evaluate its activities as a service to the organization. The objective of internal auditing is to assist members of the organization in the effective discharge of their responsibilities. To this end, internal auditing furnishes them with analyses, appraisals, recommendations, counsel, and information concerning the activities reviewed. The audit objective includes promoting effective control at reasonable cost. Occasionally a corporation may contract an external auditor or firm to conduct its internal audit function.

Internal auditor Is an auditor who works directly for a company auditing its activities throughout the year. Internal auditors of corporations are often not certified auditors, though they usually have significant accounting experience. They should report directly to the board of directors of the corporation.

Internal Control Over Financial Reporting A process designed by, or under the supervision of the company's principal executive and principal financial officers or persons performing similar functions and effected by the company's board of directors, management, and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that:

1. Pertain to the maintenance of records that accurately and fairly reflect the transactions and dispositions of the assets of the company.

2. Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP and that receipts and expenditures are being made only in accordance with authorizations of management and directors of the company.

3. Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Internal control questionnaire A list of questions about the existing internal control system to be answered (with answers such as yes, no, or not applicable) during audit fieldwork. The questionnaire is a part of the documentation of the auditor's understanding of the client's internal controls.

Internal control weakness A defect in the design or operation of internal controls. A material weakness is a reportable condition that does not reduce to a relatively low level the risk that material errors or fraud would not be detected in a timely manner by employees in the normal course of their duties.

Internal controls Include policies and procedures that (a) pertain to the maintenance of accurate and reasonably detailed records,

(b) provide reasonable assurance that transactions are properly recorded and authorized, and

(c) safeguard assets.

Internal Is inside the country, e.g. a nation's internal politics; or, happening, arising or located inside a company, e.g. internal requirements or transactions.

Internal rate of return (IRR) Is also called the dollar-weighted rate of return; the interest rate that makes the present value of the cash flows from all the sub-periods in an evaluation period plus the terminal market value of the portfolio equal to the initial market value of the portfolio.

Internal Revenue Code Collection of tax rules of the federal government. Also referred to as Title 26 of the United States Code.

Internal Revenue Service (IRS) Federal agency that administers the INTERNAL REVENUE CODE. The IRS is part of the United States Treasury Department.

Internally generated Refers to the creation of either tangible or intangible results within the confines of one entity, e.g. internally generated funds are those funds that are realized through the efforts or operations of the entity itself, i.e. the funds were not borrowed or realized through other external means.

International Accounting Standards Committee, the (IASC) is an independent private sector body, formed in 1973, with the objective of harmonizing the accounting principles which are used in businesses and other organizations for financial reporting around the world. Its members are 143 professional accounting bodies in 104 countries.

Internet/World Wide Net The Internet is the unregulate wild west show of computer networks connected together throughout the world.

Interperiod tax allocation Is the process of apportioning income taxes among accounting periods.

Intersegment revenue Is revenue generated within a segment; whether it be a business or geographical segment.

In-the-money option Is an expression used for any option series with intrinsic value, i.e., the option's strike (exercise) price and market price of the underlying security are such that the holder can exercise the option at a profit. For example, if a call option with a strike price of 30 and the underlying stock's market price is currently 33, the call is in the money. A put option is considered in the money when the underlying stock is selling below the strike price. Premiums and other transaction costs are not considered in determining whether the option is in the money or out of the money.

Intracompany Means occurring within or taking place between branches or employees of a company.

Intrinsic value, Generally, is the value of a resource unto itself, regardless of its value to humans; often considered the ethical value of a resource, or the right of the resource to exist, e.g., in securities, it is the perceived actual value of a security, as opposed to its market price or book value.

Introductory paragraph The first paragraph of the auditor's standard report, which identifies the financial statements audited, states the financial statements are the responsibility of management and that the auditor's responsibility is to express an opinion on the financial statements based on the audit.

INVENTORY ACCUMULATION Is a buildup of inventory caused primarily by unplanned events, e.g., sales not meeting expectation.

Inventory and purchases budget Represents what a business plans to buy and how much inventory it intends to hold over a given timeframe, is based on three factors: a business's desired ending inventory, cost of goods sold, and beginning inventory. A business's desired ending inventory will drive that business' budgeted purchases over a given period of time. A larger desired ending inventory will typically lead to a larger Purchases Budget and vice-versa. While the Purchases Budget, a component of the Inventory and Purchases Budget, represents an estimate of future purchases, this is an accrual-based accounting figure, and it is the Disbursements for Purchases Budget (another component of the Inventory and Purchases Budget) that drives a company's cash flows.

Inventory For companies: includes raw materials, items available for sale or in the process of being made ready for sale (work in process); for securities: it is securities bought and held by a broker or dealer for resale.

Inventory loan Is loan that is extended based upon the, usually, discounted / factored value of a business' inventory.

Inventory obsolescence Is when inventory is no longer salable. Possibly due to too much inventory on hand, out of fashion or demand. The true value of the inventory is seldom exactly what is shown on the balance sheet. Often, there is unrecognized obsolescence.

Inventory shrink, As used in retail, is reduction in physical inventory caused primarily by shoplifting and employee theft.

Inventory shrinkage Is a reduction in the physical amount of inventory that is not easily explainable. The most common cause of shrinkage is theft.

Inventory tag A tag attached to inventory items that identifies the inventory items to aid in counting the physical inventory.

Inventory transfer Can be a process by which inventory is physically tracked from location to location, e.g. from warehouse to shop floor; or, the transfer of assets from one account to another within the same or an alternate entity.

Inventory turnover Is a ratio that shows how many times the inventory of a firm is sold and replaced over a specific period.

Inventory turns (period average) Measures the average efficiency of the firm in managing and selling inventories during the last period, i.e., how many inventory turns the company has per period and whether that is getting better or worse. It is imperative to compare a company's inventory turns to the industry average. A company turning their inventory much slower than the industry average might be an indication that there is excessive old inventory on hand which would tie up their cash. The faster the inventory turns, the more efficiently the company manages their assets. However, if the company is in financial trouble, on the verge of bankruptcy, a sudden increase in inventory turns might indicate they are not able to get product from their suppliers, i.e., they are not carrying the correct level of inventory and may not have the product on hand to make their sales. If looking at a quarterly statement, there probably are more or less turns than an annual statement due to seasonality, i.e., their inventory levels will be higher just before the busy season than just after the busy season. This does not mean they are managing their inventory any differently; the ratio is just skewed because of seasonality.

Inventory turns (period end) Measures the ending efficiency of the firm in managing and selling inventories during the last period, i.e., how many inventory turns the company has per period and whether that is getting better or worse. It is imperative to compare a company's inventory turns to the industry average. A company turning their inventory much slower than the industry average might be an indication that there is excessive old inventory on hand which would tie up their cash. The faster the inventory turns, the more efficiently the company manages their assets. However, if the company is in financial trouble, on the verge of bankruptcy, a sudden increase in inventory turns might indicate they are not able to get product from their suppliers, i.e., they are not carrying the correct level of inventory and may not have the product on hand to make their sales. If looking at a quarterly statement, there probably are more or less turns than an annual statement due to seasonality, i.e., their inventory levels will be higher just before the busy season than just after the busy season. This does not mean they are managing their inventory any differently; the ratio is just skewed because of seasonality**.** NOTE: Comparing the two INVENTORY TURNS (Period Average and Period End) suggests the direction in which inventories are moving, thereby allowing an analysis of efficiency improvements and/or potential burgeoning inventory problems.

Inventory valuation (**stock valuation**) The valuation of stocks of raw material, work in progress, and finished goods. According to Statement of Standard Accounting Practice 9, stocks should be valued at the lower of cost or net realizable value and the costs incurred up to the stage of production reached. This effectively means that finished goods and work in progress should include both fixed and variable production costs but exclude the selling and distribution costs. Marginal cost may be used as a basis of stock valuation for management accounting purposes.

Inverse The opposite or reverse. An inverse relationship between two variables means that when one increases the other decreases.

Investee Is the legal entity into which an investor has made an equity investment.

Investing activities A heading required in the cash-flow statement of an organization by Financial Reporting Standard 1, Cash Flow Statements, which shows the cash flows related to the acquisition or disposal of any asset held by the organization as a fixed asset or as a current-asset investment, other than assets included within cash equivalents.

Investment analyst A person employed by stockbrokers, banks, insurance companies, unit trusts, pension funds, etc., to give advice on the making of investments, especially investments in securities, commodities, etc. Many pay special attention to the study of equities in the hope of being able to advise their employers to make profitable purchases of ordinary shares. To do this they use a variety of techniques, including a comparison of a company's present profits with its future trading prospects; this enables the analyst to single out the companies likely to outperform the general level of the market. This form of technical analysis is often contrasted with fundamental analysis, in which predicted future market movements are related to the underlying state of an economy and its expected trends. Analysts who rely on past movements to predict the future are called chartists.

Investment banker Is an underwriter who serves as a middleman between a corporation issuing new securities and the public. Usually, an investment banker, or several investment bankers in a syndicate, buy the securities issue outright, then sell the securities to individuals or institutions.

Investment capital Is capital realized from issuance of long term debt, common shares, or preferred shares.

Investment center Is the responsibility center within an organization that has control over revenue, cost, and investment funds. It is a profit center whose performance is evaluated on the basis of the return earned on invested capital, e.g. corporate headquarters or a division of a large decentralized organization.

Investment Expenditure used to purchase goods or services that could produce a return to the investor.

Investment expense Is any cost of investment realized aside from the principal investment itself. For example**:**, in mutual funds, investment expesne is normally contained within five types of investment costs that must be measured to determine your total investment expense: a. Annual mutual fund expenses (i.e. the expense ratio); b. Front or back end sales loads; c. Portfolio turnover and trading costs for the fund (i.e. bid/ask spread, premium for large block trades, etc.); d. Brokerage commissions; and, e. Other (i.e., wrap account fees, annuity mortality & expense charges, etc.).

Investment Is the purchase of real property, stocks, bonds, collectible annuities, mutual fund shares, etc, with the expectation of realizing income or capital gain, or both, in the future. Investment is longer term and usually less risky than speculation.

Investment manager Is an individual, firm, or committee responsible for making day-to-day decisions to buy, hold, or sell assets; also known as money managers.

Investment opportunity set Is a graphical depiction of the Capital Allocation Line; which depicts expected rates of return between risky and risk-free assets.

Investment properties Properties owned by a company that holds investments as part of its business, such as an investment trust or a property-investment company. Investment properties may also include properties owned by a company whose main business is not the holding of investments. Such properties are strictly defined by Statement of Standard Accounting Practice 19, Accounting for Investment Properties, as being an interest in land and/or buildings:

(1) in respect of which construction work and development have been completed; and

(2) that is held for its investment potential, any rental income being negotiated at arm's length. However, a property owned and occupied by a company for its own purposes is not an investment property, and a property let to and occupied by another company in the same group is not an investment property for the purposes of its own accounts or the group accounts. Investment properties should not be depreciated annually unless they are held on a lease. If they are leased they should be depreciated on the basis set out in Statement of Standard Accounting Practice 12, Accounting for Depreciation, at least over the period, when the unexpired term is 20 years or less. Investment properties should be included in the balance sheet at their open-market value, movements being taken to the investment

revaluation reserve unless it is insufficient to cover a deficit, in which case it should be taken to the profit and loss account.

Investment revaluation reserve A reserve created by a company with investment properties, if these properties are included in the balance sheet at open-market value. Changes in the value of investment properties should be disclosed as movements on the investment revaluation reserve, unless the total of the investment revaluation reserve is insufficient to cover a deficit, in which case the amount by which the deficit exceeds the amount in the investment revaluation reserve should be charged to the profit and loss account. In the case of investment trust companies and property unit trusts it may not be appropriate to deal with these deficits in the profit and loss account, in these circumstances they should be shown prominently in the financial statements.

Investment tax credit Is a tax credit in the United States that allows businesses to write-off a portion of the cost of purchasing equipment for business use.

Investment trust (investment company) A company that invests the funds provided by shareholders in a wide variety of securities. It makes its profits from the income and capital gains provided by these securities. The investments made are usually restricted to securities quoted on a stock exchange, but some will invest in unquoted companies. The advantages for shareholders are much the same as those with unit trusts, i.e. spreading the risk of investment and making use of professional managers. Investment trusts, which are not usually trusts in the usual sense, but private or public limited companies, differ from unit trusts in that in the latter the investors buy units in the fund but are not shareholders. Some investment trusts aim for high capital growth (capital shares), others for high income (income shares).

investment turnover Is a profitability measure used to calculate the number of times per year an investment or assets revolve.

Invisible earnings Earnings from international transactions involving such services as insurance, banking, shipping, tourism, and accountancy.

Invoice discounting A form of debt discounting in which a business sells its invoices to a factoring house at a discount for immediate cash. The service does not usually include sales accounting and debt collecting.

Invoice Is a detailed list of goods shipped or services rendered, with an account of all costs; an itemized bill.

Invoice, commercial Is a legal document that functions internationally as a bill of sale. It usually contains the exporting company, contents of the shipment, amount charged, name of carrying vessel, order number and payment terms.

Invoice, consular Is an invoice stamped or endorsed by the consulate of the country requiring such.

Involuntary Conversions This is a conversion of property where it is in whole or part destroyed, stolen, seized, requisitioned or condemned (or where there is a threat or imminence of requisition or condemnation).

Involuntary unemployment Unemployment in which workers who would be willing to work for lower wages than those in employment are still unable to find work. J M Keynes (1883-1946) argued that recessions are characterized by involuntary unemployment because firms may be unwilling or unable to cut the wages of workers they employ. Although neoclassical economists have found difficulty accepting this concept in recent years, a number of theories (including the implicit contract theory and the efficiency wage theory) have been suggested to explain it. The emergence of these theories reflects the need to explain the high and persistent levels of unemployment that began in the 1980s.

Iou Is an informal debt instrument in the form of a written promise to pay back money owed; e.g., personal loans and professional services.

Ipo (initial public offering) Is the first or primary offering of stock to the public.

Irrecoverable advance corporation tax Advance corporation tax paid that cannot be set against the current year's gross corporation tax (GCT) or carried back against GCT arising on profits for the accounting periods beginning in the preceding six years, as it exceeds the maximum set-off available. The advance corporation tax is carried forward to set against future GCT liabilities arising on profits in future accounting periods. If profits are not expected in the foreseeable future or if future dividends are expected to be paid up to the maximum available for future years, the current advance corporation tax surplus is considered to be irrecoverable advance corporation tax.

Irrecoverable input VAT VAT input tax paid on items acquired in order to produce exempt supplies.

Irrelevant cost, In managerial accounting decision-making situations, is any positive or negative implications phenomenon which is not consequent upon the production process, whether it is denominated in money terms or not.

Irrevocable letter of credit Is a letter of credit in which the specified payment is guaranteed by the issuing bank if all terms and conditions are met by the drawee. It is as good as the issuing bank.

Irs Is Internal Revenue Service; also.

ISA 1. *Abbreviation for* International Standards on Auditing.

2. *Abbreviation for* individual savings account.

isb Independence Standards Board.

Issue by tender (**sale by tender**) A method of issuing shares on the Stock Exchange in which an issuing house asks investors to tender for them. The stocks or shares are then allocated to the highest bidders. It is usual for the tender documents to state the lowest price acceptable. This method may be used for a new issue or for loan stock, but is not frequently employed.

Issue price The price at which a new issue of shares is sold to the public. Once the issue has been made the securities will have a market price, which may be above (at a premium on) or below (at a discount on) the issue price. In an introduction, offer for sale, or public issue, the issue price is fixed by the company on the advice of its stockbrokers and bankers; in an issue by tender the issue price is fixed by the highest price that can be obtained for the whole issue; in a placing the issue price is negotiated by the issuing house or broker involved.

Issue, In securities, is stock or bonds sold by a corporation or a government; or, the selling of new securities by a corporation or government through an underwriter or private placement.

Issued share A share that has been allotted by the directors of a company to an applicant and paid for in full by that applicant.

Issued share capital (**subscribed share capital**) The amount of the authorized share capital for which shareholders have subscribed.

Issuer This term means an issuer, the securities of which are registered under Section 12 of the Securities Exchange Act of 1934, or that is required to file reports under Section 15(d) of that Act, or that files or has filed a registration statement with the SEC that has not yet become effective under the Securities Act of 1933 and that it has not withdrawn.

Isv Can mean: Independent Software Vendor, Independent Solution Vendor, or Information Service Vendor.

IT 1. *Abbreviation for* income tax.

2. *Abbreviation for* information technology.

Itemized deductions Is amounts paid by an individual taxpayer for personal and quasi-business expenses that can be deducted in computing taxable income, such as medical expenses, property and income taxes, mortgage and investment interest, charitable contributions, moving expenses, casualty and theft losses, and certain miscellaneous expenses.

J

Jbo Is Joint Back Office (stock trading).

Jco Is Justification for Continued Operation.

Job An identifiable discrete piece of work carried out by an organization. For costing purposes a job is usually given a job number.

Job card (job ticket) Traditionally, a card containing the written instructions for the operations to be carried out for the completion of a job. The instructions are now likely to be in the form of a computer printout.

Job cost The costs incurred in carrying out a job. These are usually analysed into the constituent costs, for example direct materials costs, direct labour costs, and overheads.

Job costing, Generally, it is the allocation of all time, material and expenses to an individual project or job; specifically, JOB COSTING is normally software based and provides for budgeting, forecasting, collecting and reporting on the expenditure and revenue associated with specific projects or jobs.

Job number A number assigned to each job where job costing is in operation; it enables the costs to be charged to this number so that all the individual costs for a job can be collected.

Joint and several liability A liability that is entered into by a group, on the understanding that if any of the group fail in their undertaking the liability must be shared by the remainder. Thus, if two people enter into a joint and several guarantee for a bank loan, if one becomes bankrupt the other is liable for repayment of the whole loan.

Joint audit An audit carried out by two or more firms and in which the audit report is prepared jointly.

Joint costs Are costs incurred to produce a certain amount of two or more products where the cost of producing one product cannot be logically isolated and cost allocation is arbitrary.

Joint payee endorsement, Normally, when a bank draft is made out to two parties both parties are required to endorse the back of the bank draft before it will be honored by the bank.

Joint products The output of a process in which there is more than one product and all the products have similar or equal economic importance.

Joint return Is a US income tax filing status that can be used by a married couple. The married couple must be married as of the last day of their tax year in order to qualify for this filing status. A married couple can also elect to file as married, filing separate returns.

Joint stock company Is a company that has some features of a corporation and some features of a partnership. This type of company has access to the liquidity and financial reserves of stock markets as a corporation, however, as in a partnership; the stockholders are liable for company debts and have additional restrictions of a partnership.

Joint Venture When two or more persons or organizations gather CAPITAL to provide a product or service. Often carried out as a partnership.

Joint ventures & investments Is the total of investments and equity in joint ventures.

Joint-and-Last Survivor Annuity A type of annuity where income is payable during the lifetimes of two or more annuitants and continues until the death of the last survivor.

Joint-and-Last-Survivorship Option When paying out the proceeds of an insurance policy, payments continue until the death of the last survivor of two persons.

Joint-stock company A company in which the members pool their stock and trade on the basis of their joint stock. This differs from the earliest type of company, the merchant corporations or regulated companies of the 14th century, in which members traded with their own stock, subject to the rules of the company. Joint-stock companies originated in the 17th century and some still exist, although they are now rare.

Journal entry Is the beginning of the accounting cycle. Journal entries are the logging of business transactions and their monetary value into the t-accounts of the accounting journal as either debits or credits. Journal entries are usually backed up with a piece of paper; a receipt, a bill, an invoice, or some other direct record of the transaction; making them easy to record and to maintain traceability for each transaction.

Journal, In accounting transactions, is where transactions are recorded as they occur.

Joystick A computer input device resembling a small aircraft control stick that is used with computer games, and some computer-aided design programs, to move graphics symbols on the screen.

Judgmental sampling (**non-statistical sampling**) A form of sampling in which the auditor selects his sample from a population based on his own experience and assessment of the situation, rather than using statistical sampling techniques.

Junior Mortgage A lien that is below that of another mortgage. The holder of a junior mortgage can usually be satisfied only after a more senior lender is paid off. Thus, the interest rate on a junior mortgage is usually higher.

Junk bond Is a bond with a speculative credit rating of BB or lower. Such bonds offer investors higher yields than bonds of financially sound companies. Two agencies, Standard & Poor's and Moody's Investor Services, provide the rating systems for companies' credit.

Junk Bonds Debt securities issued by companies with higher than normal credit risk. Considered "non-investment grade" bonds, these Securities ordinarily yield a higher rate of interest to compensate for the additional risk.

Just-in-time (JIT) Is a management philosophy that strives to eliminate sources of manufacturing waste and cost by producing the right part in the right place at the right time.

Just-in-time techniques (**JIT techniques**) The approach to manufacturing designed to match production to demand by only supplying goods to order. This has the effect of reducing stocks of raw material and finished goods, encouraging those production activities that add value to the output, and minimizing levels of scrap and defective units.

Jv Is Journal Voucher or Joint Venture.

K

K-1 The information form from a partnership, S corporation, trust or estate, which provides the flow-through income and losses to be reported on an investor's individual return.

Kaizen budgeting Is a budgeting approach that projects costs on the basis of future improvements, rather than current practices and methods. The key point is that the budget cannot be achieved unless improvements are made.

Kaizen costing Means "improvements in small steps" (i.e., continuous improvement). It was developed in Japan by Yashuhiro Monden. Kaizen Costing is applied to product that it already under production.

Keep-well agreements, Also known as comfort letters, are documents from one party written to another party in regards to contingent liability. Comfort letters have been held by courts to be legally enforceable commitments if they meet certain standards criteria of language. Comfort letters meeting these standards are loss contingencies in that they are construed to guarantee a financial commitment and must be reported under Statement of Financial Accounting Standard 5 as a guarantee. Auditors should review the language of all comfort letters and seek to discover contingent liabilities not disclosed in financial statements in situations where comfort letters exist. Sources of information concerning the contingent liabilities of comfort letters include: management and third parties. Auditors should document within the client representations letter management assurances that loss contingencies have been reported.

Keogh Is a pension plan in the United States that allows a business to contribute a portion of profits into a tax-sheltered account.

Keogh Plan Also known as an HR 10, this is a qualified retirement plan for self employed who do not incorporate their business. If qualifications are met the taxpayer may receive a deduction for contributions made.

Key Employee For purposes of rules that apply to top heavy plans, a key employee:

1. An officer of the employer earning more than $130,000;

2. An individual who owns more than 5 percent of the employer; 3. An individual who owns more than 1 percent of the employer and compensation greater than $150,000.

Key management Those employees in senior positions in an organization who have authority for directing or controlling its major activities and resources.

Kite-flying or kiting is the discounting of a kite (accommodation bill) at a bank, knowing that the person on whom it is drawn will dishonour it.

Key Person Insurance Business-owned life insurance contract typically on the lives of principal officers that normally provides for guaranteed death benefits to the company and the accumulation of a cash surrender value.

Keynesian growth models Are models in which a long run growth path for an economy is traced out by the relations between saving, investing and the level of output.

Keynesian macroeconomics Is the theory that shows how a market-based capitalist economy may reach equilibrium with large scale unemployment and how government spending may be used to raise it out of this to a new equilibrium at the full-employment level of output.

Kicker An additional benefit a lender or investor receives as an inducement to make the loan or investment. For example, a lender may receive an Equity Kicker allowing him to receive a share of the income from the property if it exceeds a specified amount or giving the lender warrants to purchase shares of stock in the investment at a price below market value.

Kikin, In Japan, is a capital foundation fund.

Kiting, When used in the context of banking, refers to the practice of depositing and drawing checks at two or more banks and taking advantage of the time it takes for the second bank to collect funds from the first bank. Can also refer to illegally increasing the face value of a check by changing the printed amount of the check. When used in the context of securities, it refers to the manipulation and inflation of stock prices.

Know-how Is the knowledge and skill required to do something correctly.

L

Labor intensive Is used to describe industries or sectors of the economy that relies relatively heavily on inputs of labor, usually relative to capital but sometimes to human capital or skilled labor, compared to other industries or sectors.

Labour costs (**wages costs**) Expenditure on wages paid to those operators who are both directly and indirectly concerned with the production of the product, service, or cost unit.

Labour intensive Denoting a company or industry in which labour costs are more important than capital costs.

Labour rate variance.

Lag time Is the period of time between two closely related events, phenomena, etc., as between stimulus and response or between cause and effect: a time-lag between the declaration of war and full war production.

Land, In terms of accounting, is the value of real estate less the value of improvements, e.g. buildings.

Landing cost Is the initial charges for landing imported goods, such as those for receiving goods from dockside vessels or from barges to lighters. They may also cover wharfage or delivery from the dock to land conveyance or warehouse.

Lapping In the USA, the fraudulent practice of concealing a shortage of cash by delaying the recording of cash receipts. There are a number of variations, but essentially the cashier conceals the theft of cash received from the first customer by recording the cash received from the second customer as attributable to the first, and so on with subsequent customers. The cashier hopes to be in a position to replace the cash before the dishonesty is discovered. As such hopes are frequently based on attempts at gambling, the deception is often discovered.

Large-cap Is a stock with a level of capitalization of at least $5 billion market value.

Last in, First out (LIFO) Accounting method of valuing inventory under which the costs of the last goods acquired are the first costs charged to expense. Commonly known as LIFO.

Last-in-first-out cost (**LIFO cost**) A method of valuing units of raw material or finished goods issued from stock by using the latest unit value for pricing the issues until all the quantity of stock received at that price is used up. The next earliest price is then used for pricing the issues, and so on. Because the issues are based on a LIFO cost, the valuation of closing stocks is described as being on the same LIFO basis. The method may also be used in process costing to value the work in process at the end of an accounting period.

Latent Defect A defect which could not be discovered by ordinary and reasonable inspection.

Latin american model Is an accounting model. There are other accounting systems which differ from the U.S. accounting model. U.S. GAAP and FASB standards are not the only accounting principles used internationally; for example, many countries reverse the U.S. debit and credit system. Many countries with high rates of inflation account for inflation in financial reports much more than the U.S. does. Also, for any company operating internationally there is the currency exchange translation problem when consolidating financial statements.

Lcm Is Lower of Cost or Market.

Lcm rule Is an abbreviation for lower-of-cost-or-market rule. LCM requires that an asset be reported on the financial statements at the lower of purchase cost or market value.

Lead managers Banks that launch a new issue, usually a eurobond. They are usually chosen either because they have a close relationship with the borrower or because they have been successful in a competitive bought deal contest.

Lead schedule The schedule at the beginning of audit documentation that summarizes the detailed schedules.

Leading and lagging Techniques often used at the end of a financial year to enhance a cash position and reduce borrowing. This is achieved by arranging for the settlement of outstanding obligations to be accelerated (leading) or delayed (lagging).

Lead-time Is the time between the initial stage of a project or policy and the appearance of results, for example, the long lead-time in oil production because of the need for new field exploration and drilling.

Learning curve A technique that takes into account the reduction in time taken to carry out production as the cumulative output rises. The concept is based on a doubling of output, so that a 70% learning curve means that the cumulative average time taken per unit falls to 70% of the previous cumulative average time as the output doubles. The cumulative average time per unit is measured from the very first unit produced. The formula for the learning curve is:

$y = ax\text{-}b$,

where y = cumulative average time per unit of production, a = the time taken to produce the first unit, x = cumulative number of units manufactured to date, and b = the learning coefficient.

Lease Is a contract where a party being the owner (lessor) of an asset (leased asset) provides the asset for use by the lessee at a consideration (rentals), either fixed or dependent on any variables, for a certain period (lease period), either fixed or flexible, with an understanding that at the end of such period, the asset, subject to the embedded options of the lease, will be either returned to the lessor or disposed off as per the lessor's instructions.

Lease rate factor Is the periodic lease or rental payment expressed as a percentage (or decimal equivalent) of equipment cost. Used to calculate payments given the cost of equipment (e.g. A lease rate factor of 0360 on an equipment cost of $5,000.00 requires a monthly payment of $180.00 (0360x$5,000.00=$180.00).

Leaseback (renting back) An arrangement in which the owner of an asset (such as land or buildings) sells it to another party but immediately enters into a lease agreement with the purchaser to obtain the right to use the asset. Such a transaction is a method for raising funds and can affect the financial statements of a company, depending on whether a finance lease or an operating lease is entered into.

Leasehold improvements Are those repairs and / or improvements, usually prior to occupancy, made to a leased facility by the lessee. The cost is then added to fixed assets and amortized over the life of the lease.

Leasehold Interest The right to the use of real property created by a lease. If the rent payable on the lease is below the current market, the lease has a number of years to run and is for a very desirable property, etc. the lease can be a valuable asset, particularly if the space can be subleased.

Leasehold Is an agreement between the lessee and lessor specifying the lessee's rights to use the leased property for a specific purpose and given time at a specified rental payment.

Ledger account An account in a ledger that holds the records for all the transactions relating to that particular person (e.g. A debtor), thing (e.g. stock item), or activity (e.g. Sales).

Ledger Is a book of accounts in which data from transactions recorded in journals are posted and thereby classified and summarized**.**

Legal capital In the USA, the amount of stockholders' equity, which cannot be reduced by the payment of dividends.

Legal entity Is a person or organization that has the legal standing to enter into contracts and may be sued for failure to perform as agreed in the contract, e.g., a child under legal age is not a legal entity, while a corporation is a legal entity since it is a person in the eyes of the law.

Legal tender Money that must be accepted in discharge of a debt. It may be limited legal tender, i.e. it must be accepted but only up to specified limits of payment; or unlimited legal tender, i.e. acceptable in settlement of debts of any amount.

Legitimacy theory Posits that businesses are bound by the social contract in which the firms agree to perform various socially desired actions in return for approval of its objectives and other rewards, and this ultimately guarantees its continued existence.

Lehman formula Is a compensation formula originally developed by investment bankers Lehman Brothers for investment banking services:

5% of the first million dollars involved in the transaction for services rendered

4% of the second million

3% of the third million

2% of the fourth million

1% of everything thereafter (above $4 million)

lessee Is the party to whom the possession of specified property has been conveyed for a period of time in return for rental payments.

Less than container load (LCL) Is a shipment in which the freight does not completely fill the container; or a particular consignor's freight when combined with others to produce a full container load.

Lessor Owner of property, the temporary use of which is transferred to another (lessee) under the terms of a lease.

Letter of authorization (LOA) Is a form that permits a Donor to provide written instructions to transfer a stock certificate in the Donor's name in full or in part to another party, such as a charitable organization, without using a transfer agent. This form given to the charitable organization with the designated stock certificate and a separate Stock Power is usually executed by the charitable organization's brokerage to expedite the sale and receipt of proceeds from the gift of securities.

Letter of awareness Is a formal letter written to a lender, normally by a parent company, acknowledging its relationship with another group company and its awareness of a loan being made to that company. It is the weakest form of comfort letter. Such letters do not constitute a guarantee, but may nevertheless involve a significant moral commitment on the part of the writer.

Letter of comfort A letter to a bank from the parent company of a subsidiary that is trying to borrow money from the bank. The letter gives no guarantee for the repayment of the projected loan but offers the bank the comfort of knowing that the subsidiary has made the parent company aware of its intention to borrow; the parent also usually supports the application, giving, at least, an assurance that it intends that the subsidiary should remain in business and that it will give notice of any relevant change of ownership.

Letter of credit (LOC) Is a legal document issued by a buyer's bank that upon presentation of required documents payment would be made. Usually confirmed by the seller's bank, protection is given to the seller that payment will be made if the goods are shipped correctly, and protection is given to the seller that the goods will be shipped before payment is made.

Letter of credit, confirmed Is a letter of credit that is guaranteed by a bank that is acceptable to a seller (usually a local bank), regardless of buyer's bank.

Letter of credit, irrevocable Is a letter of credit where payment is guaranteed as long as the seller meets all conditions stipulated. A revocable letter of credit can be cancelled or altered by the buyer without permission of the seller.

Letter of representation A formal written record of representations made by the management of an organization to the auditors. The letter is prepared by the auditor and signed by management on a date as near as possible to the date of the audit report and after all audit work has been completed, including the review of events occurring after the balance sheet date, for example. The information referred to in the letter is material to the financial statements for which the auditor is unable to obtain independent corroborative evidence. These matters might include any future legal claims and adjusting events.

Level Premium Plan Premiums due on an insurance policy that remain level throughout the term, regardless of any dividends that may be paid.

Leverage hypothesis Is the theory that managers have incentive to avoid technical default of loan covenants because it could result in increases in the firm's cost of capital.

Leverage Is property rising or falling at a proportionally greater amount than comparable investments. For example, an option is said to have high leverage relative to the underlying stock because a price change in the stock may result in a relatively large increase or decrease in the value of the option. In general, in finance, leverage is the use of debt financing. Leverage, within a corporation, is the use of borrowed money to increase the return on investment. For leverage to be positive, the rate of return on the investment must be higher than the cost of the money borrowed.

Leverage ratios Measures the relative contribution of stockholders and creditors, and of the firm's ability to pay financing charges. Value of firm's debt to the total value of the firm.

Leveraged buy-out (LBO) Is a transaction used for taking a public corporation private, financed through the use of debt funds: bank loans and bonds. Because of the large amount of debt relative to equity in the new corporation, the bonds are typically rated below investment grade, properly referred to as high-yield bonds or junk bonds. Investors can participate in an LBO through either the purchase of the debt (i.e., purchase of the bonds or participation in the bank loan) or the purchase of equity through an LBO fund that specializes in such investments.

Leveraged lease Is a lease arrangement under which the lessor borrows a large proportion of the funds needed to purchase the asset and grants the lender a lien on the assets and a pledge of the lease payments to secure the borrowing.

Levied Is a charge imposed and collected.

Levy Is to impose and collect a charge.

LIAB *Abbreviation for* Licentiate of the International Association of Bookkeepers.

Liability An obligation to transfer economic benefits (generally money) as a result of past transactions (e.g. the purchase of a fixed asset or a circulating asset).

Liability, In insurance, is a term used when analyzing insurance risks that describes possible areas of financial exposure / loss. Presently, there are three forms of liability coverage that insurers will underwrite: The first is general liability, which covers any kind of bodily injury to non-employees except that caused by automobiles and professional malpractice. The second is product liability, which covers injury to customers arising as a direct result of goods purchased from a business. The third is public liability, which covers injury to the public while they are on the premises of the insured.

License Is a legal document giving official permission to do something.

Lien Is the right to take another's property if an obligation is not discharged.

Life assurance An insurance policy that pays a specified amount of money on the death of the life assured or, in the case of an endowment assurance policy, on the death of the life assured or at the end of an agreed period, whichever is the earlier. Life assurance grew from a humble means of providing funeral expenses to a means of saving for oneself or one's dependants, with certain tax advantages.

Life Income Period-Certain Annuity The annuitant is guaranteed payments for the rest of his life, but should he die before a certain time, there is a payout based on a minimum number of payments.

Life-cycle costing The approach to determining the total costs of a fixed asset that takes into account all the costs likely to be incurred both in acquiring it and in operating it over its effective life. For example, the initial cost to an airline of an aircraft is only part of the costs relevant to the decision to purchase it. The operating costs over its effective life are also relevant and would therefore be part of the decision - making data. This is an aspect of terotechnology.

Lifetime Learning Credit This allows a credit for 20 percent of qualified tuition and fees paid by the taxpayer with respect to one or more students for any year that the hope shcolarship credit is not claimed.

LIFO (last-in, first-out) Is an inventory cost flow whereby the last goods purchased are assumed to be the first goods sold so that the ending inventory consists of the first goods purchased.

Lifo liquidation Is a reduction in the reported value of inventory below levels established in prior years under the LIFO method; arises when purchases for the period are not sufficient to offset the sale of inventory in the period.

Lifo reserve Is the difference between the ending inventory under LIFO and FIFO (or other method that might be chosen).

Lifting & operating expense (LOE), In the oil/ energy industry, within any accounting period, it is all cash costs incurred in connection with the running and maintenance of production wells.

Like kind, In taxes, refers to property that is similar to another for which it has been exchanged: real estate exchanged for real estate, for instance. The definitions of like kind properties can be found in the US Tax Code at Section 1031.

Like-Kind Exchange A tax device for deferring gain on the transfer of a property by exchanging it for similar property. For example, you exchange investment property in New Hampshire for investment property in Colorado. If you receive no cash or unlike property, there is no tax on any gain.

Limit of Liability When an insured is covered by more than one policy for a loss, each insurer pays according to a predetermined formula.

Limit test (limit check). A computer program step that compares data with predetermined limits as a reasonableness test (hours worked over 60 per week).

Limitation, In contracts, is a certain period limited by statute after which actions, suits, or prosecutions cannot be brought in the courts.

Limited by shares, in which case the liability of the members on a winding-up is limited to the amount (if any) unpaid on their shares. This is by far the most common type of registered company. The liability of the members may alternatively be limited by guarantee; in this case the liability of members is limited by the memorandum to a certain amount, which the members undertake to contribute on winding-up. These are usually societies, clubs, or trade associations. Since 1980 it has not been possible for such a company to be formed with a share capital, or converted to a company limited by guarantee with a share capital. **Limited company** A company in which the liability of the members in respect of the company's debts is limited. It may be

Limited Liability Company (LLC) Form of doing business combining limited liability for all owners (called members) with taxation as a partnership. An LLC is formed by filing articles of organization with an appropriate state official. Rules governing LLCs vary significantly from state to state.

Limited liability Is one that does not go beyond the owner's investment in the business.

Limited Liability Partnership (LLP) General partnership which, via registration with an appropriate state authority, is able to enshroud all its partners in limited liability. Rules governing LLPs vary significantly from state to state.

Limited partner Is a partner in a venture who has no management authority and whose liability is restricted to the amount of his or her investment.

Limited Partnership Partnership in which one or more partners, but not all, have limited liability to creditors of the partnership.

Limited recourse financing A loan made to a company specifically set up by a developer to manage a particular property. In case of default, the lender has no recourse to the other assets of the developer.

Limited-Pay Life Premiums on a life insurance policy that are payable for a stated period or until the insured reaches a certain age.

Limiting factor Is a factor or condition that, either temporarily or permanently, impedes goal accomplishment.

Line item budget Is a budget initiated by government entities in which budgeted financial statement elements are grouped by administrative entities and object. These budget item groups are usually presented in an incremental fashion that is in comparison to previous time periods. Line item budgets are also used in private industry for comparison and budgeting of selected object groups and their previous and future expenditure levels within an organization.

Line item Is one item from a group of many items, e.g. one inventory item from the list of all inventoried items or one budgeted item from a financial budget.

Line of credit Is an agreement whereby a financial institution promises to lend up to a certain amount without the need to file another loan application. The borrower is required to reduce the debt whenever the limit of the full amount of credit has been reached.

Linear cost function Cost behaviour that, when plotted on a graph against activity levels, results in a straight line. For example, total fixed cost levels and variable costs per unit of activity will both result in a straight line horizontal to the *x*-axis when activity, production, or sales is plotted on the *x*axis. Total variable costs will also result in a straight line and is thus a linear cost function.

Linear depreciation Depreciation charges that, when plotted on a graph against time on the *x*-axis, result in a straight line, as a constant amount per annum is written off the assets concerned. Both the straight-line method of depreciation and the rate per unit of production method, when the depreciation charge is plotted against production levels, result in linear depreciation.

Linear interpolation A technique used in discounted cash flow for calculating the approximate internal rate of return of a project. The cash flows for the project are discounted at two discount rates to obtain a small positive and a small negative net present value. A linear relationship is assumed between the two results in order to calculate the discount rate that would give a net present value of zero.

Linear programming A modelling technique that determines an optimal solution for attaining an objective by taking into consideration a number of constraints. The objective function, often to optimize profits or minimize costs, is expressed as an equation and the constraints are also expressed in mathematical terms. Where only two products and few constraints are involved a solution may be obtained graphically. More than two products requires the simplex method to be used or alternatively a computer program.

Linear regression (least-squares line) The process of finding a line of best fit

To a graph on which the values of two variables are plotted in pairs. The line of best fit is computed mathematically, so that the squares of the divergence of the plots from the line are minimized. For example, a line of best fit through plots of cost levels incurred for levels of production can be used to determine the cost behaviour characteristics of the selected cost.

Linked account Gives you the flexibility of opening minor or custom account(s) that are linked to your primary account. Transactions between linked accounts are usually controlled through the password of the primary account. Linked accounts are possible through either commercial or consumer accounts, e.g. a consumer may have his/her checking, savings and over-draft protection accounts linked so that transactions can be easily made between them.

Linked presentation The presentation in a balance sheet of an asset that is in substance a financing; the item can be shown gross on the face of the balance sheet with the finance deducted from it within a single asset caption. To make a linked presentation there are a number of criteria to be met and it must be intended that the financing will be repaid from the proceeds of the asset and the company must not be able to keep the asset on repayment of the financing or be able to re-acquire it at any time. This is the procedure recommended in Financial Reporting Standard 5, Reporting Financial Transactions.

Liquid asset Is cash and any asset that can quickly be converted into cash (e.g., cash, checks and easily-convertible securities).

Liquid assets (liquid capital; quick assets; realizable assets) Assets held in cash or in something that can be readily turned into cash (e.g. deposits in a bank current account, trade debts, marketable investments). The ratio of these assets to current liabilities provides an assessment of an organization's liquidity or solvency.

Liquid Assets Cash, cash equivalents, and marketable Securities.

Liquid instrument A negotiable instrument that the purchaser is able to sell before maturity.

Liquid Is to be in a state of liquidity, i.e., maintain sufficient assets in the form of cash or assets easily convertible to cash to satisfy current liabilities. When speaking of money or an economy: being very liquid means it is driven by primarily by cash, checking/saving accounts, treasury bills, stocks and bonds, etc; while being very illiquid means it is driven primarily by human capital.

Liquid ratio (acid-test ratio; quick ratio) A ratio used for assessing the liquidity of a company; it is the ratio of the liquid (quick) assets, i.e. the circulating assets less the stock, to the current liabilities. The answer is expressed either as a percentage or as x:1. For example, a company with current assets of £25,000 including stock of £15,000 and liabilities of £12,000 will have a liquid ratio of:

(£25,000 - £15,000)/£12,000 = 0.83,

i.e. 83% or 0.83:1. This may be interpreted as the company having 83 pence of liquid or current assets for every £1 of current liabilities. If, for some reason, the company is obliged to repay the current liabilities immediately there would be insufficient liquid assets to allow it to do so. The company may therefore be forced into a hurried sale of stock at a discount to raise finance. Although there is no rule of thumb, and there are industry differences, a liquid ratio significantly below 1:1 will give rise to concern. The liquid ratio is regarded as an acid test of its solvency and is therefore sometimes called the acid-test ratio.

Liquidated Damages A specific sum of money, set as part of a contract, to be paid by one party to the other if the first should default on the contract.

Liquidating dividends Are dividends paid by a corporation that is in the process of liquidation/ bankruptcy. Liquidating Dividends are paid from the capital of the corporation as opposed to earnings. Recipients of Liquidating Dividends are typically shareholders, bond holders and/or creditors.

Liquidation Is the selling of all the assets of a debtor and the use of the cash proceeds of the sale to pay off creditors.

Liquidation value Is a type of valuation similar to an adjusted book value analysis. Liquidation value is different than book value in that it uses the value of the assets at liquidation, which is often less than market and sometimes book. Liabilities are deducted from the liquidation value of the assets to determine the liquidation value of the business. Liquidation value can be used to determine the bare bottom benchmark value of a business, since this should be the funds the business may bring upon valuation.

Liquidation Winding up an activity by distributing its Assets to the appropriate parties and settling its Debts.

Liquidator A person appointed by a court, or by the members of a company or its creditors, to regularize the company's affairs on a liquidation (winding-up). In the case of a members' voluntary liquidation, it is the members of the company who appoint the liquidator. In a creditors' voluntary liquidation, the liquidator may be appointed by company members before the meeting of creditors or by the creditors themselves at the meeting; in the former case the liquidator can only exercise his or her powers with the consent of the court. If two liquidators are appointed, the court resolves which one is to act. In a compulsory liquidation, the court appoints a provisional liquidator after the winding-up petition has been presented; after the order has been granted, the court appoints the official receiver as liquidator, until or unless another officer is appointed.

The liquidator is in a relationship of trust with the company and the creditors as a body; a liquidator appointed in a compulsory liquidation is an officer of the court, is under statutory obligations, and may not profit from the position. A liquidator must be a qualified insolvency practitioner, according to the Insolvency Act (1986) as amended by the Insolvency Act 1994. Under this act, insolvency practitioners must meet certain statutory requirements, including membership of an approved professional body (such as the Insolvency Practitioners' Association or the Institute of Chartered Accountants). On appointment, the liquidator assumes control of the company, collects the assets, pays the debts, and distributes any surplus to company members according to their rights. In the case of a compulsory

Liquidation, the liquidator is supervised by the court, the liquidation committee, and the Department of Trade and Industry. The liquidator receives a statement of affairs from the company officers and must report on these to the court.

Liquidity index A measure of a company's liquidity assessed by calculating the number of days it would take for current assets to be converted into cash.

Liquidity Is a company's ability to meet current obligations with cash or other assets that can be quickly converted to cash.

Liquidity management A combination of day-to-day operations carried out by the financial management of an organization with the objective of optimizing its liquidity so that it can make the best use of its liquid resources.

Liquidity Premium The part of an interest rate or other return that is intended to cover the fact that the investment is illiquid.

Liquidity risk The risk, in lending operations, that an investment cannot be liquidated during its life without significant costs.

Liquidity The extent to which an organization's assets are liquid ,enabling it to pay its debts when they fall due and also to move into new investment opportunities.

Listed company A company that has a listing agreement with the Stock Exchange and whose shares therefore have a quotation on the main market. These companies were formerly called quoted companies. listed security

1. In general, a security that has a quotation on a recognized stock exchange.

2. On the Stock Exchange, a security that has a quotation in the Official List of Securities of the main market, as opposed to the unlisted securities market or the third market.

Listed company Is a public company listed or quoted on a stock exchange.

Listed investments Are those investments which are listed or quoted on a stock exchange.

Listed Property Limits are imposed on the Depreciation deduction a taxpayer may claim on certain listed property as follows:

1. A passenger car;
2. Other property used as transportation;
3. Property used for purposes of entertainment, recreation, or amusement;
4. A computer and peripheral equipment; and
5. Cellular telephone.

Listing Is a written contract between an agent and a principal giving authorization to the agent to perform services for the principal involving the principal's property; or, a record of a property for sale by a broker who has been authorized by the owner of the property to be sold.

Listing requirements The conditions that must be satisifed before a security can be traded on a stock exchange. To achieve a quotation in the Official List of Securities of the main market of the Stock Exchange, the requirements contained in a listing agreement must be signed by the company seeking quotation. The two main requirements of such a listing are usually:

I. that the value of the company's assets should exceed a certain value;

II. that the company publish specific financial information, both at the time of flotation and regularly thereafter .

Listing requirements are generally more stringent the larger the market. For example, the main market in London demands considerably more information from companies than the unlisted securities market .The listing requirements are set out in the Yellow Book.

Litigation Support/Dispute Resolution A service that CPAs often provide to attorneys e.g., expert testimony about the value of a business or other asset, forensic accounting (a partner stealing from his other partners, or a spouse understating his income in a matrimonial action). The lawyer hires the CPA to do the investigation and determine the amount of money stolen or understated.

Little GAAP The generally accepted accounting principles applied to small companies. Some argue that with small companies, which are primarily owner-managed, compliance with GAAP imposes a heavy burden in relation to the value the owners receive from the information in the annual accounts. There are difficulties in determining, however, the criteria that should be used to exempt companies as well as widespread concern that accounts that do not comply with accounting standards would not present a true and fair view of a company's activities.

Llcr Is Loan Life Coverage Ratio.

Lma, Among others, is an acronym for Lease Management Agreement, Local Marketing Agreement or Legal Marketing Association.

Loaded labor rate Is the employee hourly rate plus employee benefits, capital expenses, and other overhead.

Loan capital (borrowed capital; debt capital) Capital used to finance an organization that is subject to payment of interest over the life of the loan, at the end of which the loan is normally repaid. There are different categories of loan capital: mortgage debentures are secured on specific assets of the organization, while convertible debentures may be converted into equity according to the terms of the issue.

Loan Commitment A agreement by a lender to make a loan in the future if all the conditions in the agreement are satisfied.

Loan covenant Is a legally enforceable promise or restriction in a mortgage. For example, the borrower may covenant to keep the property in good repair and adequately insured against fire and other casualties. A breach of covenant in a mortgage usually creates a default, defined by the mortgage, and can be the basis for foreclosure.

Loan creditor A person or institution that has lent money to a business. For example, when a bank loan is obtained the bank becomes a loan creditor.

loan Is an agreement under which an owner of assets (the lender) allows another entity (the borrower) to use the assets for a specified time period. In return, the borrower agrees to pay the lender a payment (interest) and return the assets (cash) at the end of the agreed upon time period.

Loan stock Is stock bearing a fixed rate of interest. Unlike a debenture, loan stock may or may not be secured.

Loan to value ratio, In real estate, is the percentage value for the relationship between the amount of the mortgage loan and the appraised value of the property. Loan-to-value ratio is expressed to a potential purchaser of a property in terms of the percentage a lending institution is willing to finance.

Loan-in-process account (lip account) Serves as a deposit account for construction funds. The buyer's down payment is deposited into this account and is used for the initial construction draws. Disbursements of actual loan funds begin once the buyer's money is depleted. Interest on the borrowed funds will be billed monthly on the amount withdrawn. Upon completion of the house, the buyer will be asked to furnish a homeowner's insurance policy and monies for completing the escrow account. Once final disbursements to the builder are made, monthly payments begin based on amortization of the balance at that time.

Loan-to-Value Ratio. The percentage a lending institution will loan to the appraised value of a property. For example, if the property is appraised for $100,000 and a bank will loan only $70,000, the loan-to-value ratio is 70%.

Local area network (lan) A network of linked computers within a limited area or a common environment, such as an office building. A network operating system, network programs, and application programs are required.

Local taxation A tax applicable to those living in a particular area.

Lockbox Is 1. a fireproof metal strongbox (usually in a bank) for storing valuables e.g., a safety deposit box; and,

2. a service offered by banks to companies in which the company receives payments by mail to a post office box and the bank picks up the payments several times a day, deposits them into the company's account, and notifies the company of the deposit. This enables the company to put the money to work as soon as it's received, but the amounts must be large in order for the value obtained to exceed the cost of the service.

Logging Is the practice of recording data, in some medium, sequential input, often in a time-associated format.

Lombard rate The interest rate used by the Bundesbank, the German central bank.

Long Bond A bond that matures in more than 10 years.

Long lease A lease that has more than 50 years to run, as defined by the Companies Act (1985).

Long position A position held by a dealer in securities, commodities, currencies, etc., in which holdings exceed sales, because the dealer expects prices to rise enabling a profit to be made by selling at the higher levels.

Long-form report A detailed report made by an auditor on a client's financial statements.

Long-lived assets Are usually those assets that are not consumed during the normal course of business, e.g. land, buildings and equipment, etc.

Long-term contract A contract that falls into two or more accounting periods before being completed. Such a contract may be for the design, manufacture, or construction of a single substantial asset, for example in the construction or civil engineering industries. From an accounting point of view, there is a problem in determining how much profit can be reasonably allocated to each accounting period, although the contract is not complete. Statement of Standard Accounting Practice 9, Stocks and Long Term Contracts, requires contracts to be assessed on an individual basis and shown in the profit and loss account by recording turnover and related activity as the contract progresses. Where the outcome of the contract can be assessed with reasonable certainty, even though it is not complete, the part of the profit that can be attributed to the work performed by an accounting date may be recognized in the profit and loss account. Attributable profit is that part of the total profit currently estimated to arise over the duration of the contract, after allowing for estimated remedial costs, maintenance costs, and increases in costs not recoverable under the contract agreement.

Long-term debt to equity Expresses the relationship between long-term capital contributions of creditors as related to that contributed by owners (investors). As opposed to DEBT TO EQUITY, Long-Term Debt to Equity expresses the degree of protection provided by the owners for the long-term creditors. A company with a high long-term debt to equity is considered to be highly leveraged. But, generally, companies are considered to carry comfortable amounts of debt at ratios of 0.35 to 0.50, or $0.35 to $0.50 of debt to every $1.00 of book value (shareholders equity). These could be considered to be well-managed companies with a low debt exposure. It is best to compare the ratio with industry averages.

Long-term debtors Debtors who are not expected to pay what they owe in the near future. The debtors of an organization shown on the face of a balance sheet under circulating assets may be assumed by some readers to be expected to pay within 12 months, thus being comparable to current liabilities. The legal definition of fixed assets, however, means that current assets are merely those assets that an organization does not mean to keep in the business and there are no time implications. In some cases, possibly by mutual agreement, it may be many years before a company is able to recover money from certain debtors. The Urgent Issues Task Force requires that if the size of the debt due after more than one year is material, the amounts should be disclosed on the face of the balance sheet.

Long-term Is a long period of time. In securities, for a bond it is 10 or more years or as it relates to a buy and hold investment strategy. In accounting, it is thought of as being in excess of 12 months, e.g. long-term liabilities.

Long term debt Is all senior debt, including bonds, debentures, bank debt, mortgages, deferred portions of long term debt, and capital lease obligations.

Long-term liabilities Are liabilities of a business that are due in more than one year. An example of a long-term liability would be a mortgage payable.

Loss Excess of expenditures over revenue for a period or activity. Also, for tax purposes, an excess of basis over the amount realized in a transaction.

Loss leader Is a featured article of merchandise sold at a loss in order to draw customers.

Loss reliefs Relief available to sole traders, partnerships, and companies making losses, as adjusted for tax purposes. Capital allowances can create a trading loss or can enhance it. Trading losses can be carried forward to set against future trading profits. For sole traders and partnerships, trading losses can be set against other income for the year of the loss and for the previous year. Partners can decide individually how to use their share of the losses. Terminal-loss relief is available when a trade is permanently discontinued and a loss is made during the last 12 months. For companies, a trading loss can be set off against profits of the previous 12-month period, provided the company was carrying on the same trade during that period. Terminal-loss relief is available for companies. Capital losses can be set against capital gains in the same period. Any surplus capital loss that cannot be utilized during the current year must be carried forward to set against future capital gains. Capital losses cannot be set against other income, unlike trading losses.

Lost Instrument Bond A bond that guarantees that the owner of a lost stock, bond, etc. certificate or other financial instrument will hold the firm harmless against loss if it will issue a replacement certificate.

Lot Can be: 1. A group of items which are bought or sold together; 2. Multiple shares held or traded together, usually in units of 100; or, 3. A parcel of land.

Lowballing An alleged practice in which auditors compete for clients by reducing their fees for statutory audits. The lower audit fees would be compensated by the auditor carrying out highly lucrative non-audit work, such as consultancy and tax advice, for the client. It is difficult to assess how widespread the practice is in an economic climate in which competition has pushed down audit fees, but a number of well-publicized examples suggest that it has been taking place since the 1980s.

Lower of cost and net realizable value rule The method of valuing stocks and work in progress, recommended by Statement of Standard Accounting Practice 9, in which they should be valued at the lower of either cost or net realizable value, for published accounts purposes.

Lower of Cost or Market Valuing assets for financial reporting purposes. Ordinarily, “cost” is the purchase price of the asset and “market” refers to its current replacement cost. Generally Accepted Accounting Principles (GAAP) requires that certain assets (e.g., INVENTORIES) be carried at the lower of cost or market.

Lowest Responsible Bidder. The bidder who is awarded a contract because his bid is lower than any of the other bidders whose reputation, past performance, and business and financial capabilities are acceptable.

Low-level language A computer-programming language closely related to the machine code. Low-level languages are not as user-friendly as high-level languages.

LRIC Is an acronym for Long Run Incremental Cost. A service costing methodology used primarily in the telecommunications industry.

Ltm Means Last Twelve Months.

Lump-sum Is an agreed upon sum of money, which is paid in full settlement all at one time.

M

Machine hour A measurement of production in terms of the time taken for a machine operation to complete a given amount of production.

Machine hour rate An absorption rate used in absorption costing, obtained by the formula: budgeted cost centre overheads/budgeted machine hours.

Mad dog An informal name for a company with the potential to grow quickly, providing it can obtain substantial capital; risks are likely to be high. The computer industry is an example of a sector that has included a number of mad dogs.

Main product The product of a process that has the greatest economic significance. Other products of secondary economic importance are regarded as by-products; however, if all products have equal economic significance they are regarded as joint products.

Mainstream corporation tax (**MCT)** The gross corporation tax less the advance corporation tax and income tax suffered by deduction at source on unfranked investment income.

Maintenance expense The costs incurred in carrying out the.

Maintenance function. Factory maintenance would be classified as a manufacturing overhead, office maintenance as an administration overhead, salesmen's car maintenance as a selling overhead, and distribution vehicle maintenance as a distribution overhead.

Maintenance Is the activity involved in maintaining something in good working order. May include replacement of signifcant portions of the item(s) being maintained.

Maintenance of accounts, In accounting, ensures that all transactions and accounting records are in accordance with generally accepted accounting principles and applicable laws, and shall be in sufficient detail to permit an annual audit.

Make or buy decision A decision to make a product or component internally or to buy it in from a subcontractor. If the decision is based on cost terms alone, the relevant costs of manufacture compared to purchase should be considered and if there is no spare capacity then opportunity costs of manufacture may also be relevant. This decision often has to be made in the course of planning a manufacturing process.

Maker Is a. the producer of a product, or, b. the person who signs a check or promissory note, which makes him/her responsible for payment.

Malpractice insurance In the USA, liability insurance taken out by an accountant against legal action in connection with professional services. There have been a number of very high awards made to plaintiffs and this has greatly increased the cost to the accountant of obtaining insurance cover. One solution to this may be for accountants to form corporations rather than partnerships, thus reducing their exposure to personal liability.

Management accounting Is the process of identification, measurement, accumulation, analysis, preparation, interpretation, and communication of financial information used by management to plan, evaluate, and control within an organization and to assure appropriate use of and accountability for its resources. Management accounting also comprises the preparation of financial reports for non-management groups such as shareholders, creditors, regulatory agencies, and tax authorities.

Management audit An independent review of the management of an organization, carried out by a firm of management consultants specializing in this type of review. The review will cover all aspects of running the organization, including the control of production, marketing, sales, finance, personnel, warehousing, etc.

Management buyout (MBO) The acquisition of a company by its managers, often in the face of closure, after the acquisition of the company by another group that wishes to dispose of it, or occasionally as a result of its owners wishing to dispose of the business through a trade sale. In some cases a management buyout occurs when a large corporate group of companies wishes to divest itself of an operating division. Financial backers tend to like managers who know the company's business intimately, staking their own assets and taking full control of the company with the aim of boosting its profitability. Popularized in the early 1980s, management buyouts have occasionally failed, but many have continued to profit and a few have been sold on to major groups. In a highly leveraged buyout, funding will usually consist of a small amount of equity, allowing the management team to obtain and retain control, considerable straight debt, and a certain amount of mezzanine finance.

Management by exception 1. A principle of management in which a management decision that cannot be made at one level is passed up to the next level for a decision; i.e. exceptional decisions are passed up the management tree.

2. The principle used in budgetary control in which items of income or expenditure that show no variances or small variances require no action, whereas exceptional items showing adverse variances to an unacceptable degree require action to be taken.

Management by objectives (MBO) Is a management theory that calls for managing people based on documented work statements mutually agreed to by manager and subordinate. Progress on these work statements is periodically reviewed, and in a proper implementation, compensation is usually tied to MBO performance.

Management control system Is essentially a strategic tool for holding managers accountable and responsible for their performance. Existence of such a system also provides feedback for managers to know how they perform, in which direction the organization is heading, and what type of course correction may be required to stay on course.

Management Controls are controls performed by one or more managers.

Management discussion and analysis (MD&A) In the USA, the section in the annual report to stockholders and in Form 10-K that is required by the Securities and Exchange Commission. The purpose of the MD&A is to assist investors to understand the impact of changes in accounting and business activity that have affected comparisons with the results of previous years. Management should summarize and discuss, among other matters, the reasons for changes in the results of operations, capital resources, and liquidity.

Management Discussion and Analysis (MD&A) SEC requirement in financial reporting for an explanation by management of significant changes in operations, assets, and liquidity.

Management expense Is the management fee deducted from a fund's average net assets to pay an advisor or subadvisor. This fee is normally on a sliding scale. As the net assets of the fund increase, the percentage deducted for management fees decreases. A fund can also have a fixed rate or flat fee to compensate the advisor.

Management information system (MIS) Is a well-developed data management system that provides uniform organizational information from all areas of the entity within a database. Information within the database is manipulated to help management reach accurate and rapid organizational decisions.

Management letter Identifies issues not required to be disclosed in the Annual Financial Report but represent the auditor's concerns and suggestions noted during the audit.

Management representation letter A letter addressed to the auditor, signed by the client's chief executive office and chief financial officer. During an audit, management makes many representations to the auditor. Written representations from management in the letter confirm oral representations given to the auditor, document the continuing appropriateness of such representations, and reduce the possibility of misunderstanding.

Management's Report Management is required to include in its annual report its assessment of the effectiveness of the company's internal control over financial reporting in addition to its audited financial statements as of the end of the most recent fiscal year.

Managerial accounting Is a system using financial accounting records as basic data to enable better business decisions in the areas of planning and control.

Mandate 1. A written authority given by one person (the mandator) to another (the mandatory) giving the mandatory the power to act on behalf of the mandator. It comes to an end on the death, mental illness, or bankruptcy of the mandator.

2. A document instructing a bank to open an account in the name of the mandator (customer), giving details of the way it is to be run, and providing specimen signatures of those authorized to sign cheques, etc.

Mandatory liquid assets (MLA) The Bank of England's requirement that clearing banks maintain with the Bank liquid reserves not used for loans or other transactions, which must be cleared at the end of each working day. The banks usually pass on the cost of this reserve (which earns them no interest) to its customers as a part of the facility cost . The cost may be between 5 and 10 basis points. This cost is sometimes called the reserve asset cost.

Mandatory transfers Are transfers from the current (operating) fund group to other fund groups arising out of binding legal agreements related to the financing, e.g., in education: debt retirement, interest, and grant agreements with federal agencies and other organizations to match gifts and grants. Whereas non-mandatory transfers would be transfers from the current (operating) fund group to other fund groups made at the discretion of management to serve various objectives, e.g., additions to loan funds, endowment funds, plant additions, and voluntary renewal and replacement of plant.

Manual Controls are controls performed manually, not by computer.

Manual tag system Is a inventory tracking system used in inventory management that tracks inventory using tags removed at the point of purchase.

Manufacturer's Output Policy An insurance policy that covers the loss of property owned by a manufacturer but located off the premises.

Manufacturing account Is an accounting statement that is an integral part of the final accounts of a manufacturing organization. For any particular period, it indicates, among other things, prime cost of manufacturing, manufacturing overhead, the total manufacturing cost, and the manufacturing costs of finished goods.

Manufacturing concern Is an entity that derives its products for sale, thereby revenue, through the direct manufacture of those products.

Manufacturing cost of finished goods (**total production cost of finished goods)** An item computed in a manufacturing account by the addition of prime cost and manufacturing overhead, adjusted by the opening and closing work in progress for the period.

Manufacturing costs (**manufacturing expenses)** Items of expenditure incurred to carry out the manufacturing process in an organization. They include direct material, direct labour, direct expenses (such as subcontract costs), and manufacturing overhead.

Manufacturing lead time The elapsed time between placing a production order and the receipt of the completed production.

Manufacturing overhead (**production overhead)** The costs of production that cannot be traced directly to the product or cost unit. Apart from the direct costs, all other costs incurred in the manufacturing process are the manufacturing overhead; examples include depreciation of machinery, factory rent and business rates, cleaning materials, and maintenance expenses.

Manufacturing profit (*or***loss)** The difference between the value of the goods transferred from a manufacturing account to a trading account at a price other than the production cost of finished goods, and the production cost of finished goods.

Manufacturing time The time taken to produce a specified quantity of production.

Map Can mean Manufacturing Application Protocol, Merchant Account Provider, Minimum Advertised Price, or Major Accounts Processing among many others.

Margin (stocks) Allows investors to buy securities/assets by borrowing money from a broker/banker. The margin is the difference between the market value of a stock/asset and the loan a broker/banker makes.

Margin account (stocks) Is a leverageable account in which stocks can be purchased for a combination of cash and a loan. The loan in the margin account is collateralized by the stock and, if the value of the stock drops sufficiently, the owner will be asked to either put in more cash, or sell a portion of the stock. Margin rules are federally regulated, but margin requirements and interest may vary among broker/dealers.

Margin call (stocks) Is a demand for additional funds because of adverse price movement is a stock.

Margin lending, In securities, is where the lender, usually a bank, will lend you between approximately 40% and 70% of the value of approved shares and managed funds. For example, if you have $30,000 in cash, you could borrow up to $70,000 and buy a $100,000 portfolio (assuming a lending ratio of 70%). This portfolio then becomes the security for your margin lending facility.

Margin of safety ratio The margin of safety expressed as a percentage of a given level of activity. For example, if the sales level achieved is £500,000 and the sales level breakeven point is £400,000, the margin of safety is £100,000 and the margin of safety ratio will be:

(£100,000 × 100)/£500,000 = 20%.

Margin of safety The difference between the level of activity at which an organization breaks even and a given level of activity greater than the breakeven point. The margin of safety may be expressed in the same terms as the breakeven point, i.e. sales value, number of units, or percentage of capacity.

Marginal cost Is a calculation showing the change in total cost as a result of a change in volume, e.g. if one more item of output increases the total cost by $25, the marginal cost is $25. It is usually useful to determine marginal cost because it can aid in determining if the rate of production should be altered.

Marginal cost pricing The setting of product selling prices based on the charging of marginal costs only to the product. The approach is only likely to be used in exceptional circumstances, such as when competition is intensive, as its application to the complete range of products is likely to cause the business to make losses by its failure to cover its fixed costs.

Marginal costing (**direct costing; variable costing)** A costing and decisionmaking technique that charges only the marginal costs to the cost units and treats the fixed costs as a lump sum to be deducted from the total contribution, in obtaining the profit or loss for the period. In some cases, inventory valuation is also at marginal cost, although this approach does not conform to Statement of Standard Accounting Practice 9 and is used for internal reporting purposes only.

Marginal Is just barely adequate or within a lower limit.

Marginal profit Is the change in the total profit that results from the sale of an additional unit.

Marginal rate of tax The rate of corporation tax that applies to the profits of a company between the lower limit for corporation tax (£300,000 for financial year 1999) and the upper limit (£1,500,000 for that year).

Marginal relief (**small companies relief)** Relief available when the profits chargeable to corporation tax (PCTCT) of a company plus its franked investment income (FII) fall between the upper and lower limits for the financial year (between £300,000 and £1,500,000 for 1999). Marginal revenue The additional income that accrues to an organization as the result of selling an extra unit of sales.

Marginal revenue Is the change in total revenue as a result of producing one additional unit of output.

Marginal tax rate Is the top rate of income tax that is charged to individuals on their earnings.

Marine insurance Is insurance coverage protecting against loss or damage of goods transported by sea.

Mark endorsement,Normally, it is when a signatory (payee) cannot endorse with their signature, due to illiteracy or an infirmary, the signatory is allowed to make a mark that identifies that the signatory has signed. Such mark endorsements are normally witnessed with the witness endorsing the mark endorsement.

Marker rate The base interest rate defined in the loan agreement, to which the spread is added in order to establish the interest rate payable on a variable-rate loan.

Market capitalization Is the total dollar value of all outstanding shares. It is calculated by multiplying the number of shares times the current market price. The term is commonly referred to as “market cap”.

Market discount bond Is any bond having market discount except: short-term obligations with fixed maturity dates of up to 1 year from the date of issue, tax-exempt obligations that you bought before May 1, 1993.

Market discount Is the stated redemption price of a bond at maturity minus your basis in the bond immediately after you acquire it. Market discount arises when the value of a debt obligation decreases after it’s issue date.

Market position, From a marketing context, is the strength of an entity or product within the target market. In investing, it is the amount and/or depth and breadth of holdings within identified sectors of the capital market.

Market price 1. The price of a raw material, product, service, security, etc., in an open market. In a formal market, such as a stock exchange, commodity market, foreign-exchange market, etc., there is often a margin between the buying and selling price; there are, therefore, two market prices. In these circumstances the market prices often quoted are the average of the buying and selling price.

2. The economic concept of the price at which commodities are exchanged in a market, either for money or for each other.

Market report The report on the daily activities of the stock exchange or less commonly - of some other market.

Market share Is the percentage of sales a company captures for a particular product line, i.e., the percentage of total industry sales that a particular company controls within a given market.

Market to book value Is calculated by dividing the market value (MV) of a company, i.e., the total value of all its outstanding shares, by the value of its tangible assets (TA). Also known as TOBIN RATIO = MV/TA.

Market value, In general, is the price at which buyers and sellers trade similar items in an open marketplace. In the absence of a market price, it is the estimated highest price a buyer would be warranted in paying and a seller justified in accepting, provided both parties were fully informed and acted intelligently and voluntarily.

Marketable security Is a readily tradable equity or debt security with quoted prices; to include commercial paper and Treasury bills. It is a "close to cash" asset which is classified as a current asset.

Marketing cost variance The difference between the budgeted marketing cost for a period and the actual marketing cost incurred for the same period.

Marketing costs The costs incurred by an organization in carrying out its marketing activities. These would include sales promotion costs, salesmen's salaries, advertising, and point-of-sale promotional material, such as display stands.

Marketing lever Is anything that provides positional advantage or power to act effectively: Potential levers may be price, brand name, corporate image, broad distribution, effective advertising, etc.

Market-Value Clause A clause in an insurance policy that allows for the settlement of a claim based on the market value rather than the actual cash value.

Mark-to-Market Method of valuing assets that results in adjustment of an asset's carrying amount to its market value.

Markup Is the amount added to the cost of goods in order to produce the desired profit.

Marriage value The latent value released by the merger of two or more interests in land. Often the merger consists of the freehold and a long leasehold on the same property.

Married Taxpayers Taxpayers that are married may file a joint return, therefore combining their INCOME and expenses. Individuals will be considered married if:

1. They are living as husband and wife;

2. They are recognized living as common law marriage; or

3. Legally married but separated and living apart but not legally divorced. Marriage is determined as of the last day of the tax year.

Marshalling Is to make ready for action or use, e.g., marshal resources.

Master budget Formalizes the whole budget system into one single final document in which all the operational budgets flow; its goal is to draft the main economic and financial statements. However, dependent upon the individual or geographic location, is variously contains the cash budget only; or the income statement and the balance sheet combined; or the income statement and the balance sheet and the cash budget combined.

Master file A computer file that holds standing data, such as clients' names and addresses.

Mat Is Management, Administrative, and Technological.

Matched bargain A transaction in which a sale of a particular quantity of stock is matched with a purchase of the same quantity of the same stock. Transactions of this kind are carried out on the London Stock Exchange by matching brokers.

Matching concept Is the accounting principle that requires the recognition of all costs that are directly associated with the realization of the revenue reported within the income statement.

Matching Principle A fundamental concept of basic accounting. In any one given accounting period, you should try to match the revenue you are reporting with the expenses it took to generate that revenue in the same time period, or over the periods in which you will be receiving benefits from that expenditure. A simple example is depreciation expense. If you buy a building that will last for many years, you don't write off the cost of that building all at once. Instead, you take depreciation deductions over the building's estimated useful life. Thus, you've "matched" the expense, or cost, of the building with the benefits it produces, over the course of the years it will be in service.

Matching, In accounting, is the matching of invoices to purchase orders and delivery notes prior to payment.

Material adverse change A clause in a loan agreement or bank facility stating that the loan will become repayable if there should a material change in the borrower's credit standing. The clause can be contentious because it is not always clear what constitutes a material change.

Material control The control of the materials required in a production process. It includes seeing that they are available in the required place, at the required time, and in the required quantities, as well as ensuring that the materials are properly accounted for. While it is clearly imperative that a production process should not be delayed by lack of materials, it is also important that overstocking of inventories should be avoided.

Material Participation Regular, substantial, and continuous involvement in a business on the part of either the taxpayer and/or spouse. Allows losses from trades or businesses to be deducted without limitation under the passive loss rules. Applies to S corporations and partnerships.

Material The production supplies of an organization that feature as revenue expenditure purchased from a third party. Materials may be classed as either direct materials, which feature in the final product produced (such as wood and metal in furniture), or indirect materials, which are necessary to carry out production but do not feature in the final product (such as maintenance and cleaning materials). Materials are not necessarily raw materials, but can include components and sub-assemblies used in the finished product.

Material transfer note A form that records the transfer of material from one accounting code to another. A prime document, it will contain a description of the material, commodity code, job number or accounting code to be credited, job number or accounting code to be debited, and the value of material transferred.

Material Weakness A significant deficiency or combination of significant deficiencies that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected.

Materiality Magnitude of an omission or misstatements of ACCOUNTING information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would change or be influenced.

Materiality principle Requires accountants to use generally accepted accounting principles except when to do so would be expensive or difficult, and where it makes no real difference if the rules are ignored. If a rule is temporarily ignored, the net income of the company must not be significantly affected, nor should the reader's ability to judge the financial statements be impaired.

Materials Are physical goods (and their cost) used in the manufacture of a product, often separated into DIRECT MATERIAL (that which goes directly into the product such as cream into ice cream, or steel into cars) and INDIRECT MATERIAL (that which is used in maintaining the manufacturing environment such as cleaning fluids or oil for lubrication of manufacturing equipment). Indirect materials are usually part of the overhead component of cost. The term material, when used without the direct or indirect qualifier, usually refers to direct materials.

Materials cost The expenditure incurred by an organization on direct materials or indirect materials. The expenditure on direct materials is part of prime cost and that on indirect materials is a manufacturing overhead.

Materials requisition (**stores issue note; stores requisition**) A form requiring that a specified item be issued from an organization's stores for a specified use. Such a requisition is usually a prime document, which must be properly completed and authorized. It will contain a description of the material, commodity code, job number or expenditure code, and the value of the material transferred from store to expenditure. The material requisition is used to credit stock and debit expenditure.

Materials returns note (**MRN; stores returns note; SRN**) A form that records the return of material to store. A prime document, it contains similar information to a materials requisition and is used to debit stock and credit expenditure.

Matrix accounting The use of a matrix (an array of figures arranged in rows or columns) to record accounting transactions and events, rather than a T-account.

Matrix organization Is where a company superimposes a group or interdisciplinary team of project specialists on a functional organizational design. In a matrix organization the members have dual allegiances, i.e., to that particular assignment or project as well as their normal organizational department.

Maturity date Of a financial asset is the date at which that asset is converted into a specified amount of money or physical assets, e.g. the date on which an issuer of a bond promises to repay the full amount borrowed.

Maturity value, In securities, is the amount that will be received at the time a security is redeemed at its maturity. For most securities, maturity value equals par value; in insurance, it is the amount payable under a whole life insurance policy if the insured person lives to the last age on the mortality table on which the values of the contract were based.

Maximum stock level The highest level of stock planned to be held; any amounts above the maximum would be considered excess stock.

MBO 1. *Abbreviation for* management buyout.
2. *Abbreviation for* management by objectives.

MCT 1. *Abbreviation for* Member of the Association of Corporate Treasurers.
2. *Abbreviation for* mainstream corporation tax.

MD&A Is an acronym for Management Discussion and Analysis. MD&A usually refers to that section of a corporate annual or quarterly report that provides managerial comment on corporate performance for the time period in question.

Mean Is the measure of central tendency; also called the 'average'. It is calculated by the sum of the data points divided by the number of data points.

Measurement theory Involves the assignment of numerals to objects or events in order to represent certain attributes, or properties, of those objects and events.

Mechanic's Lien A claim in favor of mechanics, contractors, laborers or material suppliers against a building or other structure. The lien can only be filed by persons who worked on the building or supplied materials.

Media plan, In advertising, is the plan that details the usage of media in an advertising campaign including costs, running dates, markets, reach, frequency, rationales, and strategies.

Median Is the value of the midpoint variable when the data are arranged in ascending or descending order.

Medium term assets, Usually, are those assets that are expected of having a useful life of between six months and two years of the present.

Medium term Usually encompasses a calendar of 2-3 years or less.

Medium-sized company A company that may claim certain filing exemptions if it meets two out of three of the following criteria for the current and preceding year, or the two preceding financial years:

The balance-sheet total (total assets) should not exceed £5,600,000;

The turnover should not exceed £11,200,000;

The average number of employees should not exceed 250.

In a company's first financial year it need only meet the conditions for that year; in its second financial year it may claim the filing exemptions of a medium-sized company if it met the conditions in its first financial year. A public company, a banking or insurance company, an authorized person under the Financial Services Act (1986), or a member of an ineligible group may not claim medium-sized company filing exemptions.

A medium-sized company must prepare full audited financial statements for distribution to its shareholders but it may file abbreviated accounts instead of full accounts with the Registrar of Companies.

Medium-term note (MTN) An unsecured note issued in a eurocurrency with a maturity of about three to six years.

Member of a company A shareholder of a company whose name is entered in the register of members. Founder members are those who sign the memorandum of association; anyone subsequently coming into possession of the company's shares becomes a member.

Members' voluntary liquidation (members' voluntary winding-up) The winding-up of a company by a special resolution of the members in circumstances in which the company is solvent. Before making the windingup resolution, the directors must make a declaration of solvency. It is a criminal offence to make such a declaration without reasonable grounds for believing that it is true. When the resolution has been passed, a liquidator is appointed; if, during the course of the winding-up, the liquidator believes that the company will not be able to pay its debts, a meeting of creditors must be called and the winding-up is treated as a members' compulsory liquidation.

Memo entry Is supplemental or explanatory information on a reporting schedule. It is used for clarification of sometimes complex entries.

Memorandum entry An entry in a ledger that does not form part of the double-entry system. For example, individual debtors' ledgers are memorandum ledgers.

Memorandum for record (mr) Is an in-house memo covering information that would otherwise not be recorded in writing.

Memorandum of association An official document setting out the details of a company's existence. It must be signed by the first subscribers and must contain the following information (as it applies to the company in question): the company name; a statement that the company is a public company; the address of the registered office; the objects of the company (called the objects clause); a statement of limited liability; the amount of the guarantee; and the amount of authorized share capital and its division.

Memos Written records supporting journal entries. Credit memos support credits, while debit memos support debit entries.

Mer (management expense ratio) Is the percentage of the assets that were spent to run a mutual fund. It includes things like management and advisory fees, travel costs and 12b-1 fees.

The expense ratio does not include brokerage costs for trading the portfolio. Also referred to as the Expense Ratio.

Merchandise Is commodities offered for sale or to engage in the trade of commodities that are for sale.

Merchant bank A bank that formerly specialized in financing foreign trade, an activity that often grew out of its own merchanting business. This led them into accepting bills of exchange and functioning as accepting houses. More recently they have tended to diversify into the field of hire-purchase finance, the granting of long-term loans (especially to companies), providing venture capital, advising companies on flotations and takeover bids, underwriting new issues, and managing investment portfolios and unit trusts. Many of them are old-established and some offer a limited banking service. Their knowledge of international trade makes them specialists in dealing with the large multinational companies. They are most common in Europe, but some merchant banks have begun to operate in the USA.

Merger A combination of two or more businesses on an equal footing that results in the creation of a new reporting entity formed from the combining businesses. The shareholders of the combining entities mutually share the risks and rewards of the new entity and no one party to the merger obtains control over another. To qualify as a merger a combination must satisfy four criteria:

No party is the acquirer or acquired;

All parties to the combination participate in the management structure of the new entity;

The combining entities are relatively equal in terms of size;

The consideration received by the equity shareholders of each party consists primarily of equity shares in the combined entity, any other consideration received being relatively immaterial.

Merger accounting A method of accounting that treats two or more businesses as combining on an equal footing. It is usually applied without any restatement of net assets to fair value and includes the results of each of the combined entities for the whole of the accounting period, as if they had always been combined. It does not reflect the issue of shares as an application of resources at fair value. The difference that arises on consolidation does not represent goodwill but is deducted from, or added to, reserves.

Merger Is the union of two or more commercial interests or corporations. The distinction being that identity of the merged companies, product lines, etc., may or may not lose its individual identity.

Merger relief Relief from adding to, or setting up, a share premium account when issuing shares at a premium if an issuing company has secured at least a 90% equity holding in another company. This relief applies if the issuing company is providing for the allotment of equity shares in the issuing company in exchange for the equity shares (or non-equity shares) in the other company or by the cancellation of any such shares not held by the issuing company. This relief is given under section 131 of the Companies Act (1985).

Merger reserve A reserve credited in place of a share premium account when merger relief is made use of.

Mezzanine finance Finance, usually provided by specialist financial institutions, that is neither pure equity nor pure debt. It can take many different forms and can be secured or unsecured; it usually earns a higher rate of return than pure debt but less than equity. Conversely, it carries a higher risk than pure debt, although less than equity. It is often used in rnanagement buyouts.

Mid-cap Is a stock with a capitalization, total equity value, between $500 million and $5 billion.

Millage Is a rate (as of taxation) expressed in mills per dollar.

Minimum premium value The minimum amount for a share premium account. It is the amount by which the book value of the shares or the cost, whichever is the lower, exceeds the nominal value of the shares issued.

Minimum subscription The minimum sum of money, stated in the prospectus of a new company, that the directors consider must be raised if the company is to be viable.

Minimum wage Is the lowest compensation you are allowed to pay an employee for hourly work. It is defined by Federal, state, and sometimes local laws. State or local laws may be more restrictive than Federal law, and certainly may differ.

Minor matters Is a term used in accounting and legal reports to cover areas considered to be cosmetic or superficial; thereby deemed by the author to be of little consequence.

Minority interest Is the interest or percentage ownership of a group of stockholders who, in total, own less than 50% of the shares in the corporation.

Misappropriate To embezzle or appropriate dishonestly for one's own use.

Misappropriaton Is a nonviolent criminal taking of property. Includes embezzlement, theft, and fraud. Often applied to an employee's taking of an employer's property.

Miscellaneous income Is that income realized that is not directly related to the sale of standard products and services.

Miscellaneous Is a grouping consisting of a haphazard assortment of different kinds.

Misdeclaration penalty A penalty of up to 15% of the value added tax lost in understating the VAT liability or overstating the VAT refund due on the VAT return, when the amounts involved are material. The penalty will apply if the inaccuracy equals the lesser of ú1 million and 30% of the total amount of tax due for the period of the VAT return. The penalty can be avoided if the taxable person can show that there was reasonable excuse, that there had been a voluntary disclosure, or that the taxable person had reason to believe that their VAT affairs were under investigation by Customs and Excise.

Misstatement Stated wrongly or falsely. Untrue financial statement information.

Mitigating Reducing in force or intensity.

Mix variance 1. A variance that arises in standard costing as a direct materials variance, when a number of raw materials are used in production. It measures the loss or gain arising when the actual mix of materials used is different from the standard mix of materials specified.

2. A sales margin mix variance for an organization that sells a number of alternative products. It measures the loss or gain that arises from the actual mix of sales volumes being different from the standard mix of sales volumes specified.

Mmu Is Maintained Mark-Up.

Modified accelerated cost recovery system (macrs) Is a system used in accounting to define the rate and method under which a fixed asset will be depreciated for tax purposes.

Modified accounts The original name for what are now called abbreviated accounts.

Modified accrual basis Accounting is a mixture of the cash and accrual basis. The modified accrual basis should be used for governmental funds. To be recognized as a revenue or expenditure, the actual receipt or disbursal of cash must occur soon enough after a transaction or event has occurred to have an impact on current spendable resources. In other words, revenues must be both measurable and available to pay for the current period's liabilities. Revenues are considered available when collectible either during the current period or after the end of the current period but in time to pay year-end liabilities. Expenditures are recognized when a transaction or event is expected to draw upon current spendable resources rather than future resources.

Modified Adjusted Gross Income Your AGI (adjusted gross income) computed without considering any passive activity loss, IRA or SEP plans, taxable social security or the deduction for one-half of the self-employment tax.

Modified historical-cost convention A modification of the historicalcost convention in which certain assets are included at revalued amounts rather than their original cost. Modified historical cost accounting is permitted by the Companies Act.

Modified internal rate of return Is the rate of return which equates the initial investment with the terminal value, where the terminal value is the future value of the cash inflows compounded at the required rate of return (the opportunity cost of capital).

Monetary assets Are measured at their collectible amounts, while nonmonetary assets are measured at historical costs.

Monetary Is anything pertaining to or having to do with money, money creation, money supply, and the government management of money.

Monetary Items Definite fixed amounts stated in terms of dollars, either by law or by contract agreement.

Monetary measurement convention The accounting convention that transactions are only recognized in financial statements if they can be measured in monetary terms. This means that some assets, such as a highly trained workforce or a sound customer base, will not be shown. It is also assumed, when preparing current statutory accounts, that money is a stable unit of measurement; in times of price changes, therefore, financial statements can be misleading. This is a major disadvantage of historical cost accounting.

Monetary unit Is the unit used to measure economic activity (e.g., U.S. $).

Money A medium of exchange that functions as a unit of account and a store of value. Originally it enhanced economic development by enabling goods to be bought and sold without the need for barter. However, throughout history money has been beset by the problem of its debasement as a store of value as a result of inflation. Now that the supply of money is a monopoly of the state, most governments are committed in principle to stable prices. The central debate in economics over the past 50 years has been whether fiscal policy and monetary policy can have any effect other than to create inflation. The word *money* is derived from the Latin *moneta*, which was one of the names of Juno, the Roman goddess whose temple was used as a mint.

Money laundering The practice of concerting money from an illegal source, such as drug dealing, into an apparently legitimate source.

Money market 1. The market for short-term loans in which money brokers arrange for loans between the banks, the government, the discount houses, and the accepting houses, with the Bank of England acting as lender of last resort. The main items of exchange are bills of exchange, Treasury bills, and trade bills. Private investors, through their banks, can place deposits in the money market at a higher rate of interest than bank deposit accounts, for sums usually in excess of 10,000.

2. The foreign-exchange market and the bullion market in addition to the short-term loan market.

Money market line An agreement between a bank and a company that entitles the company to borrow up to a certain limit each day in the money markets, on a short-term basis (often overnight or in some cases up to one month).

Money measurement concept Stipulates that all business transactions must be expressed in money terms, i.e., if something cannot be measured in money; it will not be included in accounting books.

Monitor, Generally, is to keep tabs on; keep an eye on; or, keep under surveillance. In business, it is a person or firm appointed to review and report on, without controlling or approving, the day-to-day transactions of a business. Particulars of the engagement are usually set out in an exchange of letters, an agreement or court order.

Moratorium 1. An agreement between a creditor and a debtor to allow additional time for the settlement of a debt.

2. A period during which one government permits a government of a foreign country to suspend repayments of a debt.

3. A period during which all the trading debts in a particular market are suspended as a result of some exceptional crisis in the market. In these circumstances, not to call a moratorium would probably lead to more insolvencies than the market could stand. The intention of such a moratorium is, first, that firms should be given a breathing space to find out exactly what their liabilities are and, secondly, that they should be given time to make the necessary financial arrangements to settle their liabilities.

Mortgage An interest in property created as a security for a loan or payment of a debt and terminated on payment of the loan or debt. The borrower, who offers the security, is the mortgagor ; the lender, who provides the money, is the mortgagee. Building societies and banks are the usual mortgagees for house purchasers, although there are other providers. A mortgage is generally repaid by monthly instalments, usually over a period of 25 years. Repayments may consist of capital and interest (repayment mortgage) or of interest only, with arrangements being made to repay the capital, generally from the proceeds of an endowment assurance policy (endowment mortgage) or a pension policy (pension mortgage). Business uses of the mortgage include using property to secure a loan to start a business. Virtually any property may be mortgaged (though land is the most common).

Under the Law of Property Act, which governs mortgage regulations, there are two types of mortgage, legal and equitable. A legal mortgage confers a legal estate on the mortgagee; the only valid mortgages are

(a) a lease granted for a stated number of years, which terminates on repayment of the loan at or before the end of that period; and

(b) a deed expressed to be a charge by way of legal mortgage. An equitable mortgage can be created if the mortgagee has only an equitable interest in the property (for example, when the mortgagee is a beneficiary under a trust of the property). Provided that this is done by deed, the rights of the parties are very similar to those under a legal mortgage. An equitable mortgage can also be created of a legal or equitable interest by an informal agreement, e.g. the mortgagor hands the title deeds to the mortgagee as security for a loan. Such a mortgagee has the remedies of possession and foreclosure only . A second or subsequent mortgage may be taken out on the same property, provided that the value of the property is greater than the amount of the previous mortgage(s). All mortgages of registered land are noted in the register of charges on application by the mortgagee, and a charge certificate is issued. When mortgaged land is unregistered, a first legal mortgagee keeps the title deeds. A subsequent legal mortgagee and any equitable mortgagee who does not have the title deeds should protect their interests by registration.

If the mortgaged property is the mortgagor's main residence, the mortgagor is entitled to mortgage interest relief, an income tax allowance on the value of the interest paid on mortgages up to a specified figure (currently ú30,000). For mortgages made on or after 1 August 1988, the limit of mortgage relief applies to the property rather than to the borrower. Thus when two or more people share a residence, the relief is allocated between them in equal shares. Previously, each occupant (except when couples were married) was entitled to the full relief. Under the MIRAS (mortgage interest relief at source) scheme, interest payments made by a borrower to a bank, building society, etc., are made after deduction of an amount equivalent to the relief of income tax due at the basic rate, and therefore no other relief is necessary, unless the person paying the mortgage pays tax at a higher rate. • Under the equity of redemption, the mortgagor is allowed to redeem the property at any time on payment of the loan together with interest and • costs; any provisions in a mortgage deed to prevent redemption (known as clogs) are void. • In theory, the mortgagee always has the right to take possession of mortgaged property even if there has been no default. This right is usually excluded by building-society mortgages until default, and its exclusion may be implied in any instalment mortgage. Where residential property is concerned, the court has power to delay the recovery of possession if there is a realistic possibility that the default will be remedied in a reasonable time. In case of default, the mortgagor has a statutory right to sell the property, but this will normally be exercised after obtaining possession first. Any surplus left after the debt and the mortgagee's expenses have been met must be paid to the mortgagor. The mortgagee also has a statutory right to appoint a receiver to manage mortgaged property in the event of default; this power is useful where business property is concerned. As a final resort, a mortgage may be brought to an end by foreclosure, in which the court orders the transfer of the property to the mortgagee. This is not common in times of rising property prices, as the mortgagor would lose more than the value of the debt, so the court will not order foreclosure where a sale would be more appropriate. However, when property values are falling the mortgagor may have negative equity and the only recourse of the courts is foreclosure.

Mortgage bond Is a bond in which the issuer has granted the bondholders a lien against the pledged assets.

Mortgage interest relief at source (MIRAS) An arrangement allowing income tax relief to be given to a mortgagor on the first ú30,000 of a loan taken out to purchase a main residence. For 1999-2000 the relief was 10%. MIRAS will be abolished from April 2000.

Mortgage Is a conditional conveyance of property as security for the repayment of a loan.

Mortgage Legal instrument evidencing a security interest in assets, usually real estate.Mortgages serve as collateral for promissory notes.

Mortgagee A lender who loans money to a *mortgagor.* The loan is usually secured by real estate or other property.

Mou Is Memorandum of Understanding.

Mscc Is Material Supply Chain Cost.

Mud Is Multi Unit Discount.

Multicolumn reporting The presentation of financial information prepared on different bases (e.g. historical-cost convention, modified historical-cost convention, replacement cost, etc.) in column form, each column representing a different basis. It is designed to facilitate understanding by the user.

Multilateral netting A method of reducing bank charges in which the subsidiaries of a group offset their receipts and payments with each other, usually monthly, resulting in a single net intercompany payment or receipt made by each subsidiary to cover the period concerned. This saves both on transaction costs and paperwork.

Multinational Is involving or operating in several nations or nationalities (Example: Multinational corporations).

Multinationals Companies with operations in a number of countries, which require them to comply with different company and taxation legislation.

Multiple breakeven points Two or more activity levels at which an organization breaks even. They can occur on breakeven charts when the cost and revenue functions are not linear and the total cost curve and the total revenue curve cross each other more than once.

Multiple Line Insurance An insurance policy that combines both liability and property damage coverage and insures against a range of perils.

Multiple Same as *Price/Earnings Ratio.*

Multiple solution rates The several rates of return that can in some circumstances be computed in an appraisal based on discounted cash flow using the internal rate of return method. These circumstances may arise when the projected cash flows change from positive to negative and back to positive again, causing an internal rate of return at each change of sign in the stream of cash flows.

Multiplier Is a. the investment multiplier which quantifies the overall effects of investment spending on total income; or, b. the deposit multiplier which shows the effects of a change in bank deposits on the total amount of outstanding credit and the money supply.

Municipal Bond Bond issued by a government or public body, the interest on which is typically exempt from federal taxation.

Mutual agency Is the right of all partners in a partnership to act as agents for the normal business operations of the partnership, with the authority to bind it to business agreements.

Mutual Fund Investment company which generally offers its shares to the general public and invests the proceeds in a diversified portfolio of securities.

Mutually exclusive projects A number of alternative projects being considered for appraisal, in which no one project can be pursued in conjunction with any of the other projects. For example, a parcel of land may be used to build a factory, an office block, or a mixture of the two. Each alternative is mutually exclusive because the choice of one alternative automatically excludes the others. Mutually exclusive projects arise when there is a scarce resource, in this case land.

N

Naked Position An investor is said to hold a naked position if he holds only a stock, bond, put, call, etc. If he holds both the underlying asset and a put, call, etc. he is said to have a hedged position.

Named Nonowner A policy designed to protect nonowners who drive an uninsured vehicle.

Narrative A written description of an internal control system.

Nasd Is National Association of Securities Dealers.

Nasdaq Is a computerized system established by the NASD to facilitate trading by providing broker/dealers with current bid and ask price quotes on over-the-counter stocks and some listed stocks. Unlike the Amex and the NYSE, the NASDAQ (once an acronym for the National Association of securities Dealers Automated Quotation system) does not have a physical trading floor that brings together buyers and sellers. Instead, all trading on the NASDAQ exchange is done over a network of computers and telephones. Also, theNASDAQ does not employ market specialists to buy unfilled orders like the NYSE does. The NASDAQ began when brokers started informally trading via telephone; the network was later formalized and linked by computer in the early 1970s. In 1998 the parent company of the NASDAQ purchased the Amex, although the two continue to operate separately. Orders for stock are sent out electronically on the NASDAQ, where market makers list their buy and sell prices. Once a price is agreed upon, the transaction is executed electronically.

National association of accountants (NAA) In the USA, a body of accountants whose members are mostly not certified public accountants. It has made a significant contribution to the development of management accounting.

National association of securities dealers (NASD) In the USA, a selfregulating organization whose members are brokers and dealers operating in the over-the-counter market for securities. The association has a written code of practice, standards procedures for its practitioners, and arbitration and disciplinary mechanisms, and it comments on impending legislation on securities.

National association of securities dealers automated quotations system (NASDAQ) In the USA, a computerized system that provides quotations for over-the-counter market and some stock exchange securities. It is owned and operated by the National Association of Securities Dealers.

National Association of State Boards of Accountancy serves as a forum for the 54 State Boards of Accountancy, which administer the uniform CPA examination, license Certified

Public Accountants and regulate the practice of public accountancy in the United States.

National audit office (NAO) A body set up in 1983 to be responsible for auditing the appropriation accounts of government departments and also to examine the economy, efficiency, and effectiveness with which government departments have used their resources. The NAO reports to the parliamentary Committee of Public Accounts and is under the control of the Comptroller and Auditor General.

Natural business year Is a fiscal year based on the cycle of the given business rather than a calendar year. The year ends with inventories and activities at a low level, e.g., after winter shipments for a ski manufacturer.

Natural classification Of costs focuses on the nature of the cost item. In this classification structure, the total operating costs of an activity can be classified into manufacturing costs and commercial costs. Manufacturing costs include all direct materials and direct labor, as well as, factory overhead. Such factory overhead costs include indirect materials (such as factory supplies & lubricants), indirect labor (such as supervision and inspection) and other indirect costs (such as rent, insurance, and utilities). Commercial expenses include marketing expenses (such as advertising, printing, and sales salaries) and administrative (general and administrative (G&A)) expenses (such as administrative office salaries, rent, and legal expenses).

Ncd Is Negotiable Certificate of Deposit.

Near money An asset that is immediately transferable and may be used to settle some but not all debts, although it is not as liquid as banknotes and coins. Bills of exchange are examples of near money. Near money is not included in the money supply indicators.

Near-cash assets Are non-cash assets that can be readily exchanged for cash within a relatively short period (e.g., short-term CD's and money market funds).

Nebt Is Net Earning Before Taxes.

Negative amortization Is a loan repayment schedule in which the outstanding principal balance of the loan increases, rather than amortizing, because the scheduled monthly payments do not cover the full amount required to amortize the loan. The unpaid Interest is added to the outstanding principal, to be repaid later.

Negative Assurance Report issued by an accountant based on limited procedures that states that nothing has come to the accountant's attention to indicate that the financial information is not fairly presented.

Negative confirmation request The negative form of accounts receivable confirmation asks the client's customer to respond only if the customer disagrees with the balance determined by the client. The positive form asks the customer to respond whether the customer agrees or disagrees with the client's receivable balance. The negative form is used when controls over receivables are strong and accounts receivable consists of many accounts with small balances. The positive form is used when controls are weak or there are fewer, but larger, accounts.

Negative consolidation difference A consolidation difference showing a credit balance. In acquisition accounting this will represent negative goodwill.

Negative contributor Is any item, activity, or cost that offsets attainment of positive results, e.g., a rise in unemployment and its effect upon the economy.

Negative goodwill Arises where the net assets at the date of acquisition, fairly valued, exceed the cost of acquisition. It is reflected on the balance sheet net of other intangible assets. Negative goodwill is recognized as income as follows:

To the extent that negative goodwill relates to expected future losses and expenses, it is recognized in the income statement when the future losses and expenses are recognized.

The amount of negative goodwill relating to identifiable non-monetary assets (not exceeding the fair values of such acquired assets), is recognized as income on a systematic basis over the remaining useful lives of the identifiable acquired depreciable/amortizable assets with a maximum of 20 years.

The amount of the negative goodwill in excess of the fair values of the acquired identifiable non-monetary assets is recognized as income immediately.

The amount of the negative goodwill relating to monetary assets is recognized as income immediately

NOTE: Intangible assets are not revalued.

Negative goodwill on consolidation The goodwill consolidation in which the price paid for an acquisition is less than the fair value of its net tangible assets. According to *Financial Reporting Standard* 10, negative goodwill should be recognized and separately disclosed on the balance sheet, immediately below the goodwill heading. It should be recognized in the profit and loss account in the periods in which the non-monetary assets acquired are depreciated or sold. Any negative goodwill in excess of the values of the non-monetary assets should be written back in the profit and loss account over the period expected to benefit from the negative goodwill.

Negative income tax (NIT) A means of targeting social security benefits to those most in need. The payments would be made through the income tax system by granting personal allowances to taxpayers so that the basic rate of income tax on these allowances would constitute a minimum amount required for living. Those with high incomes would obtain that amount as an income tax relief, while those with incomes lower than the allowance would have a negative income tax liability and be paid the appropriate sums.

Negative pledge A covenant in a loan agreement in which a borrower promises that no secured borrowings will be made during the life of the loan or will ensure that the loan is secured equally and ratably with any new borrowings as specifically defined.

Negative pledge clause Is a covenant or promise in an indenture agreement that states the corporation will not pledge any of its assets if doing so would result in less security to the debt holders covered under the indenture agreement. Also called covenant of equal coverage.

Negative working capital Is when current liabilities exceed current assets.

Negative yield curve A graph in which interest rates for deposits or securities are plotted against different maturities when short-term interest rates are higher than longer rates. The result is a graph that starts at a high level and curves downwards.

Negligence The omission to do something which a reasonable man, guided by those ordinary considerations which ordinarily regulate human affairs, would do, or the doing of something which a reasonable and prudent man would not do. Negligence is the failure to use such care as a reasonably prudent and careful person would use under similar circumstances; it is the doing of some act which a person of ordinary prudence would not have done under similar circumstances or failure to do what a person of ordinary prudence would have done under similar circumstances. The term refers only to that legal delinquency which results whenever a man fails to exhibit the care which he ought to exhibit, whether it be slight, ordinary, or great. It is characterized chiefly by inadvertence, thoughtlessness, inattention, and the like, while "wantonness" or "recklessness" is characterized by willfulness. The law of negligence is founded on reasonable conduct or reasonable care under all circumstances of particular care. Doctrine of negligence rests on duty of every person to exercise due care in his conduct toward others from which injury may result.

Negligible value Denoting an asset of little or no value. For capital gains tax, if an asset is determined to have negligible value it can be treated as having been sold and immediately re-acquired at the current negligible value (nil), resulting in an allowable capital loss for capital gains tax purposes.

Negotiability The ability of a document to change hands thereby entitling its owner to some benefit, so that legal ownership of the benefit passes by delivery or endorsement of the document. For a document to be negotiable it must also entitle the holder to bring an action in law if necessary.

Negotiable instrument Can be a check, promissory note, bill of exchange, security or any document representing money payable which can be transferred to another by handing it over (delivery) and/or endorsing it (signing one's name on the back either with no instructions or directing it to another). A negotiable instrument is a contract and subject to the rules governing contract law. However, a negotiable instrument may be distinguished from an ordinary contract by the fact that a negotiable instrument may be written in a way that makes it transferable. This quality of negotiation can generally allow the instrument to be used as a substitute for money by holders in due course, despite the defensive claims between the original parties who drafted the negotiable instrument. In order to be negotiable, the bill or note must be payable to order, or to bearer. Some promissory notes contain a clause(s) making them non-negotiable.

NET 10, 30, etc. Usually refers to payment terms on an invoice, e.g. 'Net 10 2%, 30', would mean that if a purchaser pays the invoice within 10 days a 2% reduction in invoice amount may be enjoyed, but full invoice amount is due within 30 days.

Net accounts receivable Is equal to total accounts receivable, minusan estimate for amounts the company believes it will never collect.

Net asset value (NAV) In securities, except money market funds which always have a NAV of $1.00, represents the market value or price of one fund share. It is calculated by the total value of the fund's portfolio less liabilities divided by the number of shares; or, in corporate valuations, it is a measure of the shareholders' aggregate wealth in the company, which is defined as the actual or hypothetical market value of the company's assets less its liabilities.

Net assets basis Is a simple division of net asset attributable to the class of shareholders with the number of shares, i.e. the per share value of net assets.

Net Assets Excess of the value of securities owned, cash, receivables, and other assets over the liabilities of the company.

Net book value Is the current book value of an asset or liability; i.e., its original book value net of any accounting adjustments such as depreciation.

Net Capitalized Cost In leasing, it's the price of the vehicle after deducting manufacturer's discounts, dealer participation allowances, and cap cost reduction (down payment) from the manufacturer's suggested retail price.

Net cash flow Equals cash receipts minus cash payments over a given period of time; or equivalently, net profit plus amounts charged off for depreciation, depletion, and amortization. also called cash flow. Net cash flow is a measure of a company's financial health.

Net cash investment in a lease (net investment in a lease) The amount of funds invested in a lease by a lessor. It comprises the cost of the leased asset, together with grants received, rentals received, taxation payments and receipts, residual values, interest payments, interest received on cash surplus, and any profit taken out of the lease.

Net change in cash Is calculated by adding cash from operating, investing, and financing activities and foreign exchange effects from the Statement of Cash Flows.

Net contribution Is the amount remaining after all relevant deductions have been made to the gross amount, e.g., *Net Contribution to Margin.*

Net debt Is: debt + short term loans less cash on hand.

Net dividend The dividend paid by a company to its shareholders, after excluding the tax credit received by the shareholders.

Net income Is the difference between a businesses total revenue and its total expenses. This caption and amount is usually found at the bottom of a company's Profit and Loss statement. Same as Net Profit.

Net interest margin Is the interest income earned on assets less interest expense paid on liabilities and capital. NET INTEREST MARGIN is the gross margin for financial institutions.

Net Lease In addition to the rental payment, the lessee assumes all property charges such as taxes, insurance, and maintenance.

Net Lease Property Property where the tenant or lessee pays most, if not all, of the expenses. The tenant may pay the expenses directly, or reimburse the landlord. If the tenant is responsible for all the expenses, the lease is often called triple net or NNN. For tax purposes, a net lease is where the deductions allowed solely by reason of IRC Sec. 162 (general business expenses) are less than 15% of gross rents from that property *or* property where the lessor is either guaranteed a specific return or is protected in whole or part against loss of income. Deductions allowed solely by reason of Sec. 162 are deductions other than interest, taxes and depreciation.

Net leases, Typically, there are three net leases: net lease, double-net lease, and triple-net lease. A net lease is a base rent plus an additional charge for taxes. A double-net lease is a base rent plus an additional charge for taxes and insurance. A triple-net lease is base rent plus an additional charge for taxes, insurance, and common area expenses.

Net margin The gross margin less all the other costs of an organization in addition to those included in the cost of goods sold.

Net of taxes Means the effect of applicable taxes (usually income taxes) has been considered in determining the overall effect of an item on the financial statements. The phrase is used when a company has items that must be disclosed in a separate section. Each such item should be reported net of the applicable taxes.

Net operating income (NOI) Is income after deducting for operating expenses but before deducting for income taxes and interest.

Net Operating Income In real estate parlance, it's gross income less operating expenses but before items such as debt service, brokerage commissions, tenant improvements, and other *capital* items.

Net operating loss (NOL) Is experienced by a business when business deductions exceed business income for the fiscal year. For income tax purposes, a net operating loss can be used to offset income in a prior year, or a taxpayer can elect to forego the carry back and carry the net operating loss forward.

Net present value (NPV) Is a method used in evaluating investments, whereby the net present value of all cash outflows (such as the cost of the investment) and cash inflows (returns) is calculated using a given discount rate, usually REQUIRED RATE OF RETURN. An investment is acceptable if the NPV is positive. In capital budgeting, the discount rate used is called the HURDLE RATE and is usually equal to the INCREMENTAL COST OF CAPITAL.

Net profit Is the company's total earnings, reflecting revenues adjusted for costs of doing business, depreciation, interest, taxes and other expenses. Same as Net Income.

Net profit margin (NPM After Tax) Measures profitability as a percentage of revenues after consideration of all revenue and expense, including interest expenses, non-operating items, and income taxes. For a business to be viable in the long term profits must be generated; making the net profit margin ratio one of the key performance indicators for any business. It is important to analyze the ratio over time. A variation in the ratio from year-to-year may be due to abnormal conditions or expenses which need to be addressed. A decline in the ratio over time may indicate a margin squeeze suggesting that productivity improvements may need to be initiated. In some cases, the costs of such improvements may lead to a further drop in the ratio or even losses before increased profitability is achieved.

Net profit margin (npm pre-tax) Incorporates all of the expenses associated with ordinary business (excluding taxes) thus is a measure of the overall operating efficiency of the firm prior to any tax considerations which may mask performance. For a business to be viable in the long term profits must be generated; making the net profit margin ratio one of the key performance indicators for any business. It is important to analyze the ratio over time. A variation in the ratio from year-to-year may be due to abnormal conditions or expenses which need to be addressed. A decline in the ratio over time may indicate a margin squeeze suggesting that productivity improvements may need to be initiated. In some cases, the costs of such improvements may lead to a further drop in the ratio or even losses before increased profitability is achieved.

Net profit ratio The net profit for a financial period expressed as a percentage of the turnover.

Net purchases Are those items purchased less returns, discounts and allowances on those purchases.

Net realizable value (NRV) 1. The sales value of the stock of an organization less the additional costs likely to be incurred in getting the stocks into the hands of the customer. It is the value placed on the closing stock according to the requirements of *Statement of Standard Accounting Practice* 9, when the NRV is lower than cost.

2. The amount at which any asset could be disposed of, less any direct selling costs.

Net receivables Are a company's accounts receivable (money owed to the company) minus any provisions for bad debts.

Net residual value (disposal value) The expected proceeds from the sale of an asset, net of the costs of sale, at the end of its estimated useful life. It is used for computing the straight-line method and diminishing-balance method of depreciation, and also for inclusion in the final year's cash inflow in a discounted cash flow appraisal.

Net revenue Is GROSS REVENUE less discounts, allowances, sales returns, freight out, etc.

Net sales Is gross sales less discounts, allowances, sales returns, freight out, etc.

Net sales to gross sales Shows the percent of all transactions that may be considered as "good" net transactions. Differences may arise from returns, bad product, or other sales concessions.

Net worth Is the difference between Total Liabilities and Total Assets. Minority interest is included here.

net, In general, is the figure remaining after all relevant deductions have been made from the starting, or gross, amount.

Netting A method of reducing bank charges in which the number of payments and receipts between connected parties is reduced by offsetting transactions between them.

Netting off The deduction of one amount from another. For example, debtors are usually shown in a balance sheet after netting off (deducting) a provision for bad debts and doubtful debts.

Net-to-net lease Is where a tenant pays a basic rental amount typically based on the square footage of the leased property plus all or a portion of the charges associated with the property including but not limited to property taxes, utilities, insurance, assessments and property maintenance.

Neutrality, In an economic model, is where money is said to be neutral in the model if changes in the level of nominal money have no effect on the real equilibrium.

New york stock exchange (**NYSE)** The main US stock exchange. It was founded in 1792 under the Buttonwood Agreement (the name of the tree under which 24 merchants agreed to give each other preference in their dealings); it moved to Wall Street in 1793. The New York Stock & Exchange Board was formally established in 1817; it was renamed the New York Stock Exchange in 1983.

Next-in-first-out cost (**NIFO cost)** A method of valuing units of raw material or finished goods issued from stock by using the next unit price at which a consignment will be received for pricing the issues. It is effectively using replacement cost as a stock valuation method, which is not normally acceptable as a stock valuation system when computing profits for taxation purposes.

Nexus, Dependent upon usage, is a. the means of connection between things linked in series; or, b. a connected series or group; or, c. is the sufficient presence within the jurisdiction of a taxing authority. The taxable income of a multistate corporation may be apportioned to a specific state only if the corporation has a sufficient nexus in the state. The nexus for state sales tax requires a physical presence in the state, whereas the nexus for state income tax purposes requires more than just solicitations of sales.

Niat Is Net Income After Taxes.

Nikkei stock average The index of stock prices used on the Tokyo Stock Exchange. It is a price weighted index of 225 Japanese companies.

Nil basis The basis upon which the earnings per share of a company is calculated taking into account only the constant elements in the company's tax charge.

Nil paid shares Shares issued without payment, usually as the result of a rights issue.

Nil-rate band The first slice of a chargeable transfer or the estate on death that is subject to a nil rate of inheritance tax. The nil rate band for 1999-2000 is £231,000.

Nim Is Net Interest Margin.

No par value capital stock In the USA, stock (shares) that have no par value or assigned value printed on the stock certificate. An advantage of this stock is that it avoids a contingent liability to stockholders in the event of a stock discount. For accounting purposes, on the issue of no par value capital stock, cash is debited and a capital stock account credited with the total proceeds received. No premium account is required.

Nominal account A ledger account that is not a personal account in that it bears the name of a concept, e.g. light and heat, bad debts, investments, etc., rather than the name of a person. These accounts are normally grouped in the nominal ledger.

Nominal accounts Are those accounts that are closed out each period: revenue accounts, expense accounts, and dividend or withdrawals accounts.

Nominal capital Is total face value of authorized issuable capital.

Nominal dollars Are dollars that have not been adjusted for inflation.

Nominal interest rate Is the stated, or named, interest rate in a note or contract; the nominal interest rate may differ from the true or effective interest rate.

Nominal ledger Is the account book showing expenditure on nominal accounts i.e. named business accounts such as postage, printing, etc.

Nominal Means small payment, or value.

Nominal value Is the par, or face, value of something e.g. a share issue.

Nominee A person named by another (the nominator) to act on his or her behalf, often to conceal the identity of the nominator.

Nominee shareholding A shareholding held in the name of a bank, stockbroker, company, individual, etc., that is not the name of the beneficial owner of the shares. A shareholding may be in the name of nominees to facilitate dealing or to conceal the identity of the true owner. Although this cover was formerly used in the early stages of a takeover, to enable the bidder clandestinely to build up a substantial holding in the target company, this is now prevented by the Companies Act (1985), which makes it mandatory for anyone holding 5% or more of the shares in a public company to declare that interest to the company. The earlier Companies Act (1967) made it mandatory for directors to openly declare their holdings, and those of their families, in the companies of which they are directors.

Non Routine Transactions Activities that occur only periodically, the data involved are generally not part of the routine flow of transactions.

Non-adjusting events Any events, either favourable or unfavourable, that occur between the balance-sheet date and the date on which the financial statements of an organization are approved by the board of directors, but which concern conditions that did not exist at the balance-sheet date. If they are sufficiently material for their non-disclosure to affect a user's understanding of the financial statements, non-adjusting events should be disclosed in the notes to the accounts. If a non-adjusting event suggests that the going-concern concept is no longer applicable to the whole, or a material part, of the company, changes in the amounts to be included in the financial statements should be made.

Non-cash expense Is that expense which is recognized within the financial statements without actual cash being disbursed (e.g., depreciation, amortization, and write-offs).

Non-cash financing & investing Is where information about transactions and other events that do not result in any cash flows during the financial year but affect assets and liabilities that are recognized must be disclosed in the financial report where the transactions and other events: a. involve parties external to the entity; and b. relate to the financing or investing activities of the entity.

Non-contributory pension scheme An occupational pension scheme in which all the contributions to the scheme are made by the employer.

Non-cumulative preference share A preference share not having the right to dividends that were not paid in previous years.

Non-current assets Includes PPE (property, plant and equipment) as opposed to current assets which includes cash, cash equivalents (e.g. securities, short-term notes, etc.), inventory and accounts receivable.

Non-discretionary accrual Is a mandatory expense/asset that is recorded within the accounting system that has yet to be realized. An example of this would be payroll taxes.

Non-discretionary Means it is mandatory, not up to the individual or company.

Non-domiciled Having a domicile in a country other than the country in question.

Non-equity share Is a share in an entity that a. evidences indebtedness of the entity to the holder of the share, and b. does not represent an equity interest in the entity.

Non-executive director A director of a company who is not involved in the day-to-day management of the business but who is appointed to bring independent judgment on issues of strategy, performance, resources, and standards of conduct. The Cadbury Report on corporate governance recommended the appointment of non-executive directors.

Non-expendable property Is durable (e.g., equipment and furniture), lasting for a year or longer, and generally has a high dollar value. Non-expendable property must be accounted for throughout its useful life.

NON-EXPENSE CASH DISBURSEMENT Is spending not shown on the income statement, i.e., the expenditure of cash on something that does not appear on the profit-and-loss statement, for example, spending on a fixed asset or discharging part or the entire principal in a debt.

Non-fixed asset Is normally equipment and furnishings with an original purchase value less than some pre-determined value (e.g., <$1,000 in acquisition cost assets are considered to be non-fixed assets). These items are not assigned asset inventory tags. Typical examples of non-fixed asset items are calculators, typewriters, chairs, desks, filing cabinets, shelving units and small tools.

Non-for-Profit Organization/Tax-Exempt Organization An incorporated organization which exists for educational or charitable purposes, and from which its shareholders or trustees do not benefit financially. Also called not-for-profit organization.

Non-interest bearing bond Is a bond issued at a discount from its par value and not paying any interest to the holder. The interest earned is determined by the difference between the redemption price and the purchased price. U.S. Treasury bills are an example of non-interest bearing bonds.

Non-interest income, In securities, is comprised of service fees and trading and other income, excluding gains/losses on securities transactions.

Non-participating preference share A preference share that does not carry a right to participate in the profits of a company beyond a fixed rate of dividend. This is the most common type of preference share.

Nonpassive Activity A trade or business in which the taxpayer materially participates, that is, on a regular continuous, and substantial basis. Losses can be deducted without limitation as to the passive loss rules. Income cannot be offset by passive losses, except those passive losses remaining after disposition of a passive activity.

Non-performing asset Is an asset not effectual in the production of income. For example, in banking, commercial loans 90 days past due and consumer loans 180 days past due are classified as non-performing.

Nonprobate Property Property owned by a decedent or in which the decedent had an interest on the daste of his or her death which passes to an heir by provisions other than a will or the laws of intestacy. That can include assets held jointly or by a trust, life insurance not payable to the estate, etc. **Nonrecourse Loan** A loan where the debtor does not assume personal responsibility for the loan. CAUTION. Such a loan has special tax implications.

Non-production overhead costs The indirect costs of an organization that are not classified as manufacturing overhead. They include administration overheads, selling overhead, distribution overhead, and (in some cases) research and development costs.

Non-professional subscriber Means any natural person who is neither:

(a) registered or qualified in any capacity with the SEC, the Commodities Futures Trading Commission, any state securities agency, any securities exchange or association, or any commodities or futures contract market or association;

(b) engaged as an "investment advisor" as that term is defined in Section 201 (11) of the Investment Advisors Act of 1940 (whether or not registered or qualified under that Act); nor,

(c) employed by a bank or other organization exempt from registration under federal or state securities laws to perform functions that would require registration or qualification if such functions were performed for an organization not so exempt.

Nonprofit organization Is one that has committed legally not to distribute any net earnings (profits) to individuals with control over it such as members, officers, directors, or trustees. It may pay them for services rendered and goods provided. Also known as NOT-FOR-PROFIT ORGANIZATION.

Non-purchased goodwill Goodwill that has been internally generated by an organization rather than purchased on the acquisition of another business.

Non-ratio covenant A form of covenant in a loan agreement that includes conditions relating to the payment of dividends, the granting of guarantees, disposal of assets, change of ownership, and a negative pledge. Breaching such a covenant will usually empower the lender to request repayment of any of the loan then outstanding, and the loan then becomes null and void.

Non-recourse finance A bank loan in which the lending bank is only entitled to repayment from the profits of the project the loan is funding and not from other resources of the borrower.

NONRECURRING Is an income statement item that is infrequent in occurrence or unusual in nature.

Nonresident Alien Any citizen that is not a resident or citizen of the United States. Income of such individuals is subject to taxation if it is effectively connected with a United States trade or business.

Non-resident Being resident in a country other than the country in question. Some taxpayers take active steps to ensure that they are considered non-resident for tax purposes as this will affect their exposure to tax.

Non-revolving bank facility A loan from a bank to a company in which the company has a period (often several years) in which to make its drawdowns, as well as flexibility with regard to the amount and timing of the drawdowns, but once drawn an amount takes on the characteristics of a term loan.

Nonsampling Risk is audit risk not due to sampling. An auditor may apply a procedure to all transactions or balances and fail to detect a material misstatement. Nonsampling risk includes the possibility of selecting audit procedures that are not appropriate to achieve a specific objective. For example, confirming recorded receivables cannot reveal unrecorded receivables. nonsampling risk can be reduced to a negligible level

Non-statutory accounts Any balance sheet or profit and loss account dealing with a financial period of a company that does not form part of the statutory accounts. Prior to the Companies Act (1989) they were known as abridged accounts.

Non-taxable income Income that is specifically exempt from tax. This includes the first £70 of interest from a National Savings Bank ordinary account, increase in value of National Savings Certificates, premium bond prizes, the capital part of the yearly amount received from a purchased life annuity, some social security benefits, prizes and betting winnings (including the National Lottery), savings related share option scheme (SAYE) account bonuses, shares allotted by an employer under an approved profitsharing scheme, and statutory redundancy pay.

Non-trade debt Is that debt where invoices are issued to individuals not suppliers (trade).

No-Par Stock Stock authorized to be issued but for which no par value is set in the articles of incorporation. A stated value is set by the board of directors on the issuance of this type of stock.

No-par value capital stock Are shares designated in the charter that do not have a par or assigned value printed on the issued stock certificate.

Nopat (net operating profit after tax) Is a company's potential cash earnings if its capitalization was unleveraged. NOPAT is commonly used in EVA calculations.

NOPLAT Is Net Operating Profit Less Adjusted Taxes.

Normal capacity The production capacity level budgeted for a period, expressed in direct labour hours, machine hours, or standard hours.

Normal loss Takes into account the nature of many process operations is such that the output volume is frequently less than the input volume. Because process operations are repetitive, the level of 'losses' of materials/product that could reasonably be expected under efficient operating conditions may be established. This is referred to as a 'normal' loss; one that is an inevitable consequence of the process operation under efficient operation conditions and is thus considered unavoidable. Losses greater (ABNORMAL LOSS) or less (ABNORMAL GAIN) than normal are referred to as 'abnormal' and result from reduced or greater efficiency.

Normal profit Is the opportunity cost of using entrepreneurial abilities in the production of a good, or the profit that could have been received by entrepreneurship in another business venture. Like the opportunity costs of other resources, normal profit is deducted from revenue to determine economic profit. It is, however, never included as an accounting cost when accounting profit is computed.

Normal rate of return, For individuals, is the average rate of return on all investments, i.e. the average of all returns yields the normal rate of return. For capital investments for businesses, it is the profit relative to capital investment.

Normal standard An average standard, used in standard costing, set to be applied over a future period during which conditions are unlikely to change.

Normal volume The volume of activity used to determine the overhead absorption rate in a system of absorption costing. It is usually the budgeted volume of production for a period.

Normalized earnings Is earnings that have been adjusted in order to take into account the effect of cycles in the economy.

Normative accounting theory Is where theorists tend to advocate their opinions on accounting based upon subjective opinion, deductive logic, and inductive methods. In the final analysis, nearly all standards are based upon normative theory. Generally conclude that some accounting rule is better or worse than its alternatives. Normative theorists tend to rely heavily upon anecdotal evidence (e.g., examples of fraud) that generally fails to meet tests of academic rigor. For example, the Wizard reported that Montgomery Ward would fail. However, the Wizard always reports that every company will fail or lose its self identity in a pattern of acquisitions and mergers. Eventually, he will always be correct.

Normative theories of accounting Theories of accounting, often based on deductive reasoning, that prescribe the accounting procedures and policies to be implemented.

Nostro account Is an account held by a bank in a foreign country in the currency of that country e.g., a German bank with an account in New York will call the record in its own books of its New York account a nostro account.

Not for profit organization In the USA, an organization that provides goods or services with a policy that no individual or group will share in any profits or losses, Examples are government and charity organizations.

Not negotiable Words marked on a bill of exchange indicating that it ceases to be a negotiable instrument, i.e. Although it can still be negotiated, the holder cannot obtain a better title to it than the person from whom it was obtained, thus providing a safeguard if it is stolen. A cheque is the only form of bill that can be crossed 'not negotiable'; other forms must have it inscribed on their faces.

Notarial Is relating to or done by a notary public.

Notary public Is a certifier of legal documents, i.e., somebody who is legally authorized to certify the authenticity of signatures and documents. Also called notary.

Note issuance facility (NIF; note purchase facility) A means of enabling short-term borrowers in the eurocurrency markets to issue euronotes, with maturities of less than one year, when the need arises rather than having to arrange a separate issue of euronotes each time they need to borrow. A revolving underwriting facility (RUF) achieves the same objective.

Note of historical cost profits and losses A memorandum item in the annual accounts and report of a company giving an abbreviated restatement of the profit and loss account, showing the reported profit or loss as if no revaluations had been made. The statement need not be made where the difference is not material. Financial Reporting Standard 3, Reporting Financial Performance, states that such a note should be published.

Notes payable Are all note obligations, including bank and commercial paper. Does not include trade notes payable.

Notes receivable Is a debt due from borrowers evidenced by a written promise of payment. Note receivable, an entry on the asset side of many corporate balance sheets, indicates the dollar amount of loans due to be repaid by borrowers.

Notes to the accounts (notes to financial statements) Information supporting that given on the face of a company's financial statements. Many notes are required to be given by law, including those detailing fixed assets, investments, share capital, debentures, and reserves. Other information may be required by accounting standards or be given to facilitate the users' understanding of the company and its current and future performance; social and environmental information, for example, falls into this category.

Notes to the financial statements Is a detailed set of notes immediately following the financial statements contained in the annual report that expands upon and/or explains in some depth the information contained in the financial statements.

Notice as Soon as Practicable A clause in an agreement that requires one party to give notice to the other party as soon as practical, relative to all the circumstances.

Notice of Claim or Suit A provision in an insurance policy that requires the insured to forward to the insurer immediately all notices received by the insured.

Notional Value assigned to assets or liabilities that is not based on cost or market (e.g., the value of a service not yet rendered).

Novation A cancellation of the rights and obligations under one loan agreement and their replacement by new ones under another agreement. The principal effect is to change the identity of the lender.

Nppe Is Net Property, Plant and Equipment.

Npv Is an acronym for Net Present Value.

Nrgt (non-resettable grand total) Is a concept used in retail point of sale (POS) terminals that does not allow the Grand Total to be reset, but does allow adjustments to be entered, e.g., errors, overwring, etc. Improved security and control is provided for independent retail and chain operations with a Non-Resettable Grand Total (NRGT). Updated by all sales, this valuable audit figure may be selected by programmability to print on the Daily Business Report.

Nsf Is Not Sufficient Funds (return check reason code).

Nta Can mean either Net Tangible Assets or Net Total Assets.

Number of days' stock held A ratio that measures the average number of days' stock held by an organization. To obtain an accurate measure the following formula should be used for each commodity:

(number of units in stock × 365)/stock usage in units per annum.

The number of units in stock may be taken at the start or the end of the year or may be the average of both. Because the information required for the above ratio is only likely to be available from the internal management accounts, a different formula using final accounts figures is often used as an overall measure of stock levels:

(value of stocks × 365)/sales or cost of sales per annum.

Again, the value of stocks may be taken at the start or the end of the period or may be an average of both. The second formula tends to be inaccurate and is an average of the turnover of all stocks.

Nwc Is Net Working Capital.

O

O&m Is an acronym for either Operations & Maintenance or Operations & Management.

Oac Is On Approved Credit.

Object code Designates the type of expense or revenue to be charged to an account.

Object cost Is the total cost of producing an item: direct cost (labor & material) + overhead cost = Total Object Cost.

Objective function In linear programming, a statement that gives the aim of a decision in the form of an equation. For example, the objective function may be either to maximize the contribution or to minimize the costs, based on a relationship between the factors of production.

Objective Is a statement that is written in terms of specific measurable time-based and verifiable outcomes that challenge the organization to be more responsive to the environment to achieve the desired goals. Dependent upon usage, GOALS are general in nature, while OBJECTIVES are specific, measurable and time-based. In some organizations, the meanings for GOAL and OBJECTIVE are reversed.

Objectives of financial statements The purposes for which the financial statements in the annual accounts and report have been made. It is essential to identify these purposes because they are needed to determine what information should be provided in financial statements. The current thinking is that the objective is to provide information useful in economic decision-making. It is debatable whether present disclosures are appropriate for this purpose; there is some uncertainty as to the users of financial statements, the purposes they use them for, and how they process the information.

Objectivity Emphasizing or expressing the nature of reality as it is apart from personal reflection or feelings; independence of mind.

Objectivity principle States that accounting will be recorded on the basis of objective evidence. Objective evidence means that different people looking at the evidence will arrive at the same values for the transaction. Simply put, this means that accounting entries will be based on fact and not on personal opinion or feelings.

Objects clause A clause contained in the memorandum of association of a company setting out the objects for which the company has been formed. If the activities undertaken by a company are not included in the objects clause, the company is said to be acting beyond its powers, i.e. ultra vires.

Obligation A commitment given to comply with the terms of a contract or to pay a debt.

Obligation bond Is a bond signed by a mortgagor (borrower) for an amount greater than the loan amount. Such a bond creates a personal obligation on the part of the borrower and assures the lender of recourse in case of nonpayment of property taxes and insurance or past due interest on the mortgage.

Obligation, In business, is a legal duty to pay or do something.

Obligations Assertions about obligations deal with whether liabilities are obligations of the entity at a given date. For example, management asserts that amounts capitalized for leases in the balance sheet represent the cost of the entity's rights to leased property and that the corresponding lease liability represents an obligation of the entity.

Obliterate To do away with something so as to leave no trace.

Observe (observation) Watch and test a client action (such as taking inventory).

OBSF *Abbreviation for* off balance sheet finance.

Obsolescence A fall in the value of an asset as a result of its age or decline in its usefulness for other reasons. Obsolescence is an important factor both for depreciation and stock. In respect of depreciation, changes in technology or markets may mean a fixed asset becomes obsolete before the end of its predicted useful life. In respect of stocks, obsolescence may mean that the total cost of outdated items held in stock have to be charged against the profit and loss account immediately, as the rule is that stocks must be shown at the lower of cost or market value.

Occupancy cost Is any cost or charge incurred by a tenant pursuant to its lease, such as rent, operating expense increases, parking charges, moving expenses, remodeling costs, etc.

Occupational pension scheme A pension scheme run by a company or other organization for its employees.

Occurrence Assertions about occurrence deal with whether recorded transactions have occurred during a given period. For example, management asserts that sales in the income statement represent the exchange of goods or services with customers for cash or other consideration.

Ocf Is Operating Cash Flow.

Ocogs Is Operating Cost of Goods Sold.

Oei Is Outside Equity Interest.

Oem Is an acronym for Original Equipment Manufacturer.

Ofa Is Oracle Flexible Architecture or Oracle Financial Accounting.

Off balance sheet finance (OBSF) A method of financing a company's activities so that some or all of the finance and the corresponding assets do not appear on the balance sheet of the company. By making use of OBSF a company can enhance its accounting ratios, such as the gearing ratio and return on capital employed, and also avoid breaking any agreements it has made with the banks in respect of the total amount it may borrow. It has been possible for companies, by drawing up complex legal agreements, to conduct off balance sheet finance and thus mislead the user of the accounts. The accounting profession has attempted to counter these practices by emphasizing that accounting should reflect the commercial reality of transactions and not simply their legal form. The recent Financial Reporting Standard 5, Reporting the Substance of Transactions, provides specific guidance for certain transactions, such as factoring and consignment stock, for which companies have previously used off balance sheet finance.

Off-balance sheet asset Is an item representing a resource of the entity or something that is projected to have future economic value. It is a positive indicator of the entities financial position even though it is not contained within the balance sheet.

Off-balance sheet financing Is a method of obtaining funds through a long-term non-cancelable lease that is accounted for as an operating lease. The lease does not meet the criteria of a 'capital lease'. This being the case, the present value of the lease obligation in not included in the lessee's balance sheet.

OFF-BALANCE SHEET LIABIILITY Is an item not reported within the body of a financial statement as a liability that may require future payment or services, e.g., litigation, renegotiated claims within a government contract, and guarantees of future performance.

Off-book partnership Is a type of blind trust. It offers some advantages over the traditional methods of capital procurement. In some cases there is a fatal lack of transparency (e.g. Enron) that allows off-book partners to hide debts, pump profits, launder money and enrich insiders, but ultimately bankrupting the company and stripping assets from its employees' pension funds.

Offer by prospectus An offer to the public of a new issue of shares or debentures made directly by means of a prospectus, a document giving a detailed account of the aims, objects, and capital structure of the company, as well as its past history. The prospectus must conform to the provisions of the Companies Act (1985).

Offer for sale An invitation to the general public to purchase the stock of a company through an intermediary, such as an issuing house or merchant bank ; it is one of the most frequently used means of flotation. An offer for sale can be in one of two forms: at a fixed price (the more usual), which requires some form of balloting or rationing if the demand for the shares exceeds supply; or an issue by tender, in which case individuals offer to purchase a fixed quantity of stock at or above some minimum price and the stock is allocated to the highest bidders. In the USA an offer for sale is called a *public offering.*

Offer price The price at which a security is offered for sale by a market maker and also the price at which an institution will sell units in a unit trust.

Offer The price at which a seller is willing to sell something. If there is an acceptance of the offer a legally binding contract has been entered into. In law, an offer is distinguished from an invitation to treat, which is an invitation by one person or firm to others to make an offer. An example of an invitation to treat is to display goods in a shop window.

Office Burglary and Robbery Policy An insurance policy for businesses that have no stock or merchandise for sale; the policy only covers the contents of the office.

Office Personal Property Form An insurance policy that covers all risks related to occupancy of an office for physical damage.

Officers of a company The directors of a company and the company secretary. An officer of a company may not be appointed as the auditor of that company.

Official interest rate, Normally, is the rate of interest charged by the government or traders within the money market, e.g., federal funds rate and bank repurchase agreement (repo rate).

Official list 1. A list of all the securities traded on the main market of the Stock Exchange.

2. A list prepared daily by the Stock Exchange, recording all the bargains that have been transacted in listed securities during the day. It also gives dividend dates, rights issues, prices, and other information.

Official receiver (OR) A person appointed by the Secretary of State for Trade and Industry to act as a receiver in bankruptcy and winding-up cases. The High Court and each county court that has jurisdiction over insolvency matters has an official receiver, who is an officer of the court. Deputy official receivers may also be appointed. The official receiver commonly acts as the liquidator of a company being wound up by the court.

Off-peak Is not in the period of most frequent or heaviest use: lower rates for telephone calls made during off-peak hours; travelers who take advantage of off-peak fares.

Offset account An account that reduces the gross amount of another account to derive a net balance. An example is a fixed asset that remains in the books of account at cost as a debit balance and is offset by a provision for depreciation account, which accumulates the annual charge for depreciation as a credit balance.

Offset account Is an account that is setup for elimination of a long or short position by making an opposite transaction.

Offset Is: A. In banking, the deduction by a debtor from a claim or demand of a debt or obligation. Such an offset is based upon a counterclaim against the party making the original claim. Example: Seller makes a claim or files a lawsuit asking for $20,000 from Debtor as the final payment in purchase of a restaurant; as part of his defense Debtor claims an offset of $10,000 for alleged funds owed by Seller for repairs Debtor made on property owned by Seller, thus reducing the claim of Seller to $10,000; b. in accounting, the amount equaling or counterbalancing another amount on the opposite side of the same ledger or the ledger of another account; c. in securities, the elimination of a long or short position by making an opposite transaction.

Offshore company 1. A company not registered in the same country as that in which the persons investing in the company are resident.

2. A company set up in a foreign country or tax haven by a financial institution with the object of benefiting from tax laws or exchange control regulations in that country.

Offsource, Slang, is to outsource to an offshore location to primarily save on the cost of labor.

Omitted Is to leave undone or leave out, i.e. to prevent from being included or considered or accepted.

On account Is a partial payment made towards satisfaction of a debt.

Oncost 1. The additional costs incurred as a consequence of employing personnel, i.e. Wages oncost, or the additional costs incurred by storing and handling direct materials, i.e. Materials Oncost or stores oncost.

2. A rarely used alternative name for overheads.

One-off Is a happening that occurs only once and is not repeated, e.g. a one-off sale is a sales event that will occur only once.

Onerous contracts A contract entered into in which the unavaoidable costs of fulfilling the contract exceed any expected revenues and in which compensation has to be paid to the other party if the terms of the contract are not fulfilled.

One-shots Is slang for governmental expenditures done on a one time appropriation.

One-write system (Also known as PEGBOARD SYSTEM) Is a useful system for small and home-based businesses. It captures information at the time the transaction takes place. These One-Write Systems are efficient because they eliminate the need for recopying the data and are compatible with electronic data processing if you should decide to computerize. Many small businesses rely totally on the One-Write System for simplicity and versatility. With only two pieces of paper, a check and a ledger, you get all the benefits of sound bookkeeping: accuracy, money distribution, check control, audit trail, running bank balance, and instant review.

Online Access to a computer for immediate processing without having to wait for a batch of transactions to be processed at a later time.

Open account Is a non-guaranteed payment arrangement, e.g. similar to department store credit. Goods are purchased and delivered without payment. Future payment for delivered goods is dependent on the good faith of the purchaser.

OPEN ALLOTMENT Is where there is no restriction as to an amount that may be taken from that which is being allotted.

Open inflation Means that prices are rising on consumer goods and services.

Open market value (OMV) Is an opinion of the best price at which the sale of an interest in an asset would have been completed unconditionally for cash consideration on the date of valuation, assuming: (a) a willing seller; (b) that, prior to the date of valuation, there had been a reasonable period (having regard to the nature of the asset and state of the market) for the proper marketing of the interest, for the agreement of price and terms and for the completion of the sale; (c) that the state of the market, level of values and other circumstances were, on any earlier assumed date of exchange of contracts, the same as on the date of valuation; (d) that no account is taken of any additional bid by a purchaser with a special interest; and•e) that both parties to the transaction had acted knowledgeably, prudently and without compulsion.

Open position (naked position) A trading position in which a dealer has commodities, securities, or currencies bought but unsold or unhedged or sales that are neither covered nor hedged. In the former position the dealer has a bull position; in the latter, a *bear position*. In either case the dealer is vulnerable to market fluctuations until the position is closed or hedged.

Open to buy Is the dollar amount budgeted by a business for inventory purchases for a specific time period.

Open-book credit Is a form of trade credit in which sellers ship merchandise on faith that payment will be forthcoming.

Open-End Lease A lease in which the lesse assumes the risk for depreciation at the end of the lease. That is, if the equipment is worth less at the end of the lease than the residual value set at the beginning of the lease, the lessee must pay the difference.

Open-End Mortgage A mortgage where the amount that can be borrowed with the property as security can be increased, i.e., there is no fixed amount of principal.

Open-End Mutual Fund Mutual fund that does not have a fixed number of shares outstanding, offers new shares to the public, and buys back outstanding shares at market value.

OPENING BALANCE Is the balance of an account at the start of an accounting period.

Opening entries Journal entries made to open a business. All the assets and liabilities must be entered into the accounts, together with the owners' capital.

Opening stock The stock held by an organization at the beginning of an accounting period as raw materials, work in progress, or finished goods. The closing stocks of one period become the opening stocks of the succeeding period and it is necessary to establish the level of closing stocks so that the cost of their creation is not charged against the profits of that period but brought forward as opening stocks to be charged against the profits of the succeeding period.

Open-market value (OMV) The value of an asset equal to the amount that a willing purchaser would be prepared to pay a willing vendor. For capital gains tax purposes, the open-market value refers to such a valuation made on 31 March 1982, the date from which indexation is calculated for assets acquired before 31 March 1982.

Operating Agreement Agreement, usually a written document, that sets out the rules by which a Limited Liability Company (LLC) is to be operated. It is the LLC equivalent of corporate bylaws or a partnership agreement.

OPERATING ALLOWANCE Is an advance/ reimbursement against certain costs/expenses and/or a reduction in amount payable to cover those certain costs/expenses.

Operating and financial review A discussion paper issued by the Accounting Standards Board, which recommends that companies should publish in their annual accounts and report a statement similar to the management discussion and analysis statement issued by US companies.

The operating and financial review gives directors the opportunity to interpret the financial statements and discuss the business, the structure of its finance, and any risks that can be foreseen. The review should give both positive and negative points.

Operating budget Focuses on the budgeted income statement and its supporting components and schedules:

1. SALES AND COLLECTIONS BUDGET represents one of the first steps in the budgeting process, as items such as inventory levels and operating expenses are driven off of the Sales and Collections Budget. Effective sales budgeting is a key factor in building a useful and representative financial model for a business. Regardless of the nature of your business (for example, whether it is product or service-based).

2. COST OF GOODS SOLD BUDGET decomposes, or breaks down, the components of a business's cost of goods sold (in some cases referred to as the cost of revenues). This budget breaks out each separate factor underlying the cost of goods sold for a business.

3. INVENTORY AND PURCHASES BUDGET represents what a business plans to buy and how much inventory it intends to hold over a given timeframe, is based on three factors: a business's desired ending inventory, cost of goods sold, and beginning inventory. A business's desired ending inventory will drive that business' budgeted purchases over a given period of time. A larger desired ending inventory will typically lead to a larger Purchases Budget and vice-versa. While the Purchases Budget, a component of the Inventory and Purchases Budget, represents an estimate of future purchases, this is an accrual-based accounting figure, and it is the Disbursements for Purchases Budget (another component of the Inventory and Purchases Budget) that drives a company's cash flows.

4. OPERATING EXPENSES BUDGET forecasts all of the elements of a business' operating expenses, such as salaries, rent, depreciation, and others. Some of these expenses are fixed and some are variable (in other words, based on another metric, such as revenues). While the Operating Expenses Budget represents an estimate of future expenses, this is an accrual-based accounting figure, and it is the Disbursements for Operating Expenses Budget, a component of the Operating Expenses Budget, that drives a company's cash flows.

Operating costing The form of costing applied both to the provision of services within an organization and to the costing of continuous operating processes, such as electricity generation.

Operating Cycle Period of time between the acquisition of goods and services involved in the manufacturing process and the final cash realization resulting from sales and subsequent collections.

Operating effectiveness How an internal control was applied, the consistency with which it was applied, and by whom.

Operating expenditures Is the amount used during a particular period directly in support of day-to-day operations such as wages, maintenance, office supplies, etc.

Operating expense to sales Reports the operating expenses as a percent of Net Revenues. This then is a measure of the total overhead employed in the firm per Net Sales Revenue Dollar; thereby giving an indication of the efficiency of the cost structure of the company. It gives an indication of the ability of a business to convert income into profit. Generally, businesses with low ratios will generate more profit than others. In general business operations with larger and more stable cash flows can sustain higher ratios than smaller and less stable operations. Scale and income stability are important considerations though it is up to the management of a business to monitor costs in an appropriate manner whatever its size.

Operating expenses and revenues The costs and revenues incurred or generated by an organization in the ordinary course of business.

Operating expenses budget Forecasts all of the elements of a business' operating expenses, such as salaries, rent, depreciation, and others. Some of these expenses are fixed and some are variable (in other words, based on another metric, such as revenues). While the Operating Expenses Budget represents an estimate of future expenses, this is an accrual-based accounting figure, and it is the Disbursements for Operating Expenses Budget, a component of the Operating Expenses Budget, that drives a company's cash flows.

Operating expenses Is all selling and general & administrative expenses. Includes depreciation, but not interest expense.

Operating exposure, In foreign exchange, is currency fluctuations combined with price level changes that can alter the amounts and riskiness of a firm's future revenues and costs. It is typified by evaluating real exchange gains or losses. It is prospective and long-term in nature.

Operating Income from continuing operations is reported on an income statement.

Operating income Is revenue less cost of goods sold and related operating expenses that are applied to the day-to-day operating activities of the company. It excludes financial related items (i.e., interest income, dividend income, and interest expense), extraordinary items, and taxes.

Operating interest Is the legal right to assets used to produce revenue, e.g., produce oil or gas from a well, accompanied by the responsibilities to pay production costs and assume the risks.

Operating lease A lease under which an asset is hired out to a lessee or lessees for a period that is substantially shorter than its useful economic life. Under an operating lease, the ownership of the leased asset remains with the lessor. Statement of Standard Accounting Practice 21, Accounting for Leases and Hire Purchase Contracts, defines an operating lease as a lease other than a finance lease.

Operating lease Is a short-term, cancelable lease.

Operating leverage Is fixed operating costs divided by total (fixed plus variable) operating costs.

Operating margin Is the ratio of operating income to sales revenue.

Operating performance ratios Various ratios used to analyse the financial performance of a company in terms of the return generated by the sales for a financial period. The higher the ratios, the higher the profitability of the organization. Examples are net profit margin and gross margin.

Operating profit Is Gross Profit minus Operating Expenses.

Operating profit to sales Is a useful ratio when evaluating value of a firm. It discounts the effect of varying tax rates and benefits to give a more accurate indication of the return associated with the firm.

Operating ratio Measures a firm's operating efficiency; calculated: company operating expenses dividedby its operating revenues.

Operating revenue Is that revenue realized from the day-to-day operations of the entity, e.g., sales revenue.

Operating risk Is the inherent or fundamental risk of a firm; without regard to financial risk. It is the risk that is created by operating leverage. Sometimes called business risk.

Operating statement A financial and quantitative statement provided for the management of an organization to record the performance achieved by that area of the operation for which the management is responsible, for a selected budget period. An operating statement may include production levels, costs incurred, and (where appropriate) revenue generated, all compared with budgeted amounts and the performance in previous periods.

Operating transfer Specifically identifies the transfer of resources from one fund/account to another made to support the normal level of operations of the receiving fund/account.

Operation agreement, Within an LLC, is similar to the constitution of a corporation. It is drafted primarily because an LLC only has a basic Articles of Organization that is very general in nature. An Operation Agreement has much more specificity as to the formation and operation of the LLC organization.

Operational audit A review of an organization's activities to assess whether they are being carried out efficiently and effectively.

Operational gearing Is the higher the proportion of fixed costs relative to variable operating costs, the higher the operational gearing. This results in greater business risk. A retailer has high fixed costs relative to variable costs, so has a lot of business risk.

Operational variances The variances arising in standard costing that measure the difference between the standards set for the current operating conditions and the actual performance achieved.

Opinion A cpa's conclusion held with confidence but not substantiated by positive knowledge or proof.

Opinion paragraph The paragraph in the audit report that expresses the auditor's conclusions. The wording of the standard, unqualified opinion paragraph is: "In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of XYZ Company at December 31, year A, and the results of its operations and its cash flows for the year then ended in conformity with generally accepted accounting principles."

Opinion shopping A colloquial name for the activity of seeking an auditor who will approve a company's accounting policies.

OPPORTUNISM Is a condition of self-interest seeking with guile whereby one party has information that the other party does not.

Opportunistic behaviour Occurs where one party takes advantage of his superior knowledge, in order to further his/her interests, by failing to disclose such information to the other party. This would occur, for example, if a supplier of widgets had information about a product which was deliberately withheld from the potential buyer, in the knowledge that such information would negatively affect the price of the product or the willingness of the buyer to purchase it.

Opportunity cost Is widely used in business planning in evaluating capital investment. A company measures the projected return against the anticipated return it would receive on a highest yielding alternative investment that contains a similar risk profile.

Opportunity cost of revenue (OCOR) Is where revenue/money held now may be invested to produce more money - thus we consider opportunity cost a return or more revenue.

Opportunity cost The income or benefit foregone as the result of carrying out a particular decision, when resources are limited or when mutually exclusive projects are involved. For example, the opportunity cost of building a factory on a piece of land is the income foregone by not constructing an office block on this particular site. Similarly, the income foregone by not constructing a factory if an office block is constructed represents the opportunity cost of an office block. Opportunity cost is an important factor in decision making , although it represents costs that are not recorded in the accounts of the relevant organization.

Optimal price Is the profit maximizing price. It can be determined through various methods, but generally it is the demand price for the full capacity output of any given product.

Optimism Is a general disposition to expect the best in all things.

Option Is the formal reservation of the right to buy or sell property / assets at a certain price and / or within a given time in the future.

Optionality test Is part of the NAIC security insurer provisional exemption rules: A. Optionality Test: for corporate and municipal issues, principal and interest must be paid in US dollars, contract terms state that principal is repayable in full and the principal repayment schedule is fixed. Further the principal is set at closing, fixed in US dollars and coupon payments cannot be less than zero in any period. B. Optionality Test: for Asset-Backed/Residential Mortgage-Backed securities, the principal and interest must be paid in US dollars, and the coupon payment cannot be less than zero in any payment period. In addition, with the exception for credit enhancements, the timing and amount of cash flows to pay the obligation must depend on the timing and amount of cash flow from the assets underlying the bond. If the bond is prepaid immediately, the insurer must receive at least 98% of the purchase price.

Order entry, Normally, is a computerized relational database that, at a minimum, generates, schedules and maintains estimates, sales orders and backlogs. Invoices may also be created automatically if linked to Accounts Receivable. More advanced order entry systems are usually fully integrated with the accounting system.

Order intake Is all orders which were legally concluded during the respective accounting period under review and have also come into effect.

Order Is a listing of goods or services requested from a supplier with specifications and desired delivery method. A company starts the purchase process internally with a requisition, which results in an order being transmitted to a supplier. When the supplier ships the goods or provides the service, an invoice is sent to the customer telling the customer the specifications, delivery method, and price of those goods or services.

Order of liquidity Is when items on a balance sheet are listed in order of liquidity. After cash, the other current assets are listed in order of liquidity or nearness to cash (i.e. Accounts Receivable first, then Inventory…)

Order of permanence Is where fixed assets are entered in the balance sheet in descending order of permanence (i.e. land first, then buildings, then equipment ...).

Ordinary asset Is a non-capital asset used for business purposes.

Ordinary income Is the income derived from the regular operating activities of a business or individual, but exclusive of capital gains. Net income from a business, along with personal wages, interest, and dividends are examples of ordinary income.

Organization cost Is amounts spent to begin a business entity, e.g., business filing fees, franchise acquisition, and legal fees. In the United States, costs associated with a corporation issuing or selling shares or other securities are capitalized and not tax deductible. Other organization expenses may be capitalized and amortized over a period of sixty (60) months or more; thereby providing possible tax relief through organization cost deductions.

Organization Expenditures The costs of organizing a trade or business or for profit activity before it begins active business. A taxpayer may elect to amortize such expenses for a tern no less than 60 months. If the election is not made then the expenses are not deductible and may only be recovered when the business ceases operation or is sold.

ORIGINAL EQUIPMENT MANUFACTURER Is a company that builds components or systems that are used in systems or products sold by another company using the purchasing company's brand. Sometimes referred to as "private label."

Original issue discount Is when a long-term debt instrument is issued at a price that is lower than its stated redemption value; the difference is called Original Issue Discount (OID).

Osha (occupational safety and health act) Is a federal law in the United States that requires employers to provide employees with a workplace that is relatively free of hazardous conditions.

Other Comprehensive Basis of Accounting (OCBOA) Consistent accounting basis other than generally accepted accounting principles (GAAP) used for financial reporting. Examples include an income tax basis or a cash basis.

Other income Is income from activities that are not undertaken in the ordinary course of an entity's business.

Other Post-Retirement Employee Benefit (OPEB) All post-retirement benefits other than pensions, provided by employers to employees.

Out-of-p0cket Are expenses requiring an outlay of cash in a given time period, e.g., payroll, advertising and other operating expenses, but not depreciation.

Out-of-the Money In options, it means the current exercise of the option would produce a loss. Thus, a call option is out-of-the-money if the current price of the asset is less than the exercise price; a put option is out-of-the-money if the current price of the asset is more than the exercise price.

Out-of-the-money option Is an option that has no intrinsic value; for example, an option whose strike price, in the case of a put, is lower than the stocks current price, or in the case of a call, is higher. An investor who buys an out-of-the-money option is speculating that the option will rise in value and become in-the-money.

Outsource Is to obtain goods or services from an outside supplier; i.e., to contract work outside of your budget and control. (An example would be companies outsourcing a percentage of their direct labor in order to maintain a flexible workforce.).

Outstanding Is the amount owed as a debt, example: outstanding bills.

Outstanding shares Is the number of shares that are currently owned by all investors. It also includes restricted shares (shares owned by officers and insiders of the company) as well as shares held by the public. Shares that the company has repurchased or retired are not considered outstanding stock.

Outturn Is what is produced in a given time period.

Over the counter (OTC) Is a market for securities that are not listed on an exchange. Security orders are transacted via telephone and a computer network that connect dealers. The OTC is a negotiated market. OTC dealers may either act either as principals or as agents for customers. The OTC market is regulated by the NASD.

Overage Is that amount, as in money or goods, that is actually on hand and exceeds the desired or listed amount in records or books. Also known as SURPLUS.

Overall review The objective of the overall review stage of the audit is to assess conclusions reached, and evaluate the overall financial statement presentation. The overall review includes reading the financial statements and notes and considering adequacy of evidence gathered in response to unusual or unexpected balances. Results of an overall review may indicate the need for additional evidence.

Over-billing Is invoicing in excess of agreed upon pricing or exaggerating the amount of services or goods provided (sometimes illegally).

Overdraft Is, a. a draft in excess of the credit balance within an account; or b. a facility (usually at a bank or other financial institution) enabling an account holder to borrow up to an agreed amount and often for an agreed time.

Overhaul Is to rebuild, make repairs or adjustments to.

Overhead absorption Is the term used for describing the transfer of value from a fixed asset such as a building or machine to the final product. In this way the indirect costs of the entity can be assigned to the products or services supplied.

Overhead Is the costs associated with providing and maintaining a manufacturing or working environment. For example: renting the building, heating and lighting the work area, supervision costs and maintenance of the facilities. Includes indirect labor and indirect material.

Overhead rate Is calculated by totaling all your expenses for one year, excluding labor and materials, and then divide this number by your total cost of labor and materials.

Overhead total variance The variances in respect of fixed and variable overheads arising in standard costing representing the differences between the overhead recovered and the overhead incurred for a period. Where the overhead recovered exceeds the overhead incurred an over-recovery or favourable variance results. Where the overhead incurred exceeds that recovered then an under-recovery or adverse variance results.

Overhead volume variance (fixed overhead volume variance) That part of the fixed overhead total variance in standard costing that measures the over- or under-recovery of fixed overheads as a result of the level of activity actually achieved differing from the level of activity budgeted. The formula is:

(actual production - budgeted production) × fixed overhead recovery rate or alternatively:

Recovered fixed overheads - budgeted fixed overheads.

Overleveraged Is a balance sheet condition where the entity is incapable of servicing its debt load (interest payments) with available capital sources. Simply put, the entity is carrying too much debt.

Overseas-income taxation Income that has been subject to taxation outside the jurisdiction of the UK tax authorities. When the same income is subject to taxation in more than one country, relief for the double tax is given either under the provisions of the double taxation agreement with the country concerned or unilaterally.

OVERSTATED Is when something is represented as greater than is true or reasonable.

Over-the-counter market (OTC market) A market in which shares are bought and sold outside the jurisdiction of a recognized stock exchange; it was originally so named in the 1870s, from the practice of buying shares over bank counters in the USA. OTC markets acquired a reputation for providing reduced investor protection but they have since become more formalized. The world's largest OTC market is the US National Association of Securities Dealers Automated Quotation System (NASDAQ).

Overtrading, In securities, is: a. excessive buying and selling by a broker in a discretionary account, or, b. practice of a member of an underwriting group inducing a brokerage client to buy a portion of a new issue by purchasing other securities from the client at a premium. In finance, it is when a firm expands sales beyond a level that can be financed with normal working capital.

Own shares purchase The purchase or redemption of its own shares by a company; this is permitted subject to certain conditions set out in the Companies Act. For example, redeemable shares may only be redeemed if they are fully paid. If the redemption or purchase of a company's own shares would lead to a reduction of its capital, a capital redemption reserve will need to be created. In certain cases private companies may reduce their capital in this way .

Own work capitalized Represents the value of work performed for own purposes and capitalized as part of fixed assets.

Owners' equity The funds of an organization that have been provided by its owners, i.e. its total assets less its total liabilities. The balance-sheet value of the owners' equity is unlikely to be equal to its market value.

P

P&a, Dependent upon usage, can be: Parts & Accessories, Pay & Allowances, Personnel & Administration, or Price & Availability.

P/e ratio (price/earnings ratio) Is a stock analysis statistic in which the current price of a stock (today's last sale price) is divided by the reported actual (or sometimes projected, which would be forecast) earnings per share of the issuing firm; it is also called the "multiple".

Package A set of computer programs designed to be sold to a number of users. They are used in computerized accounting systems for purchase and sales ledgers, stock control, payroll records, etc. Buying a software package from firms specializing in them saves users a considerable amount of time and money in developing their own.

Packing credit Is any loan or advance granted or any other credit provided by a bank to an exporter for financing the purchase, processing, manufacturing or packing of goods prior to shipment, on the basis of letter of credit opened in his favor or in favor of some other person, by an overseas buyer or a confirmed and irrevocable order for the export of goods from the producing country or any other evidence of an order for export from that country having been placed on the exporter or some other person, unless lodgment of export orders or letter of credit with the bank has been waived.

Packing list Is a statement of the contents of a container, usually put into the container so that the quantity of merchandise may be counted by the person who opens the container. Also known as a packing slip.

Paid in Capital Portion of the stockholders' equity which was paid in by the stockholders, as opposed to capital arising from profitable operations.

Paid-up share capital (fully paid capital) The total amount of money that the shareholders of a company have paid to the company for their fully paid shares.

Paper gain (LOSS) Is an unrealized capital gain (loss) in an investment or portfolio.

PAPER Is: a. amount received, by a seller of real estate, in the form of a mortgage or note rather than cash; b. a short-term debt security; c. customer buy and sell orders coming to a trading pit; d. money market instruments, commercial paper.

Paper profit A profit shown by the books or accounts of an organization, which may not be a realized profit because the value of an asset has fallen below its book value, because the asset, although nominally showing a profit, has not actually been sold, or because some technicality of bookkeeping might show an activity to be profitable when it is not. For example, a share that has risen in value since its purchase might show a paper profit but this would not be a real profit since the value of the share might fall again before it is sold.

Par value Is a. the maturity value or face value, i.e., the amount that an issuer agrees to pay at the maturity date; b. the official exchange rate between two countries' currencies; or, c. the value of a security that is set by the company issuing it; unrelated to market value.

Parallel hedge A hedge in which exposure to fluctuation in one foreign currency is matched by a purchase or sale of another currency, which is expected to move in sympathy with the first currency.

Parallel processing is the simultaneous performance of multiple operations, usually in reference to computer systems.

Parent company Is a company of which others are subsidiaries.

Pari passu clause A covenant in a loan agreement in which a borrower promises to ensure that the loan in question will rank pari passu (equally) with its other defined debts.

Pari passu Is to do or apply something at an equal pace or rate. In finance, it is used in reference to two class of securities or obligations that have equal entitlement to payment.

Parity bit An extra bit added to a string of bits to increase the accuracy of data transmission.

Parol Evidence Rule Provides that the formal, written contract governs the parties. Statements made before the drafting of the policy can not be used in evidence.

Partial exemption A restriction in value added tax legislation that can arise if a taxable person makes a mixture of taxable supplies and exempt supplies. In these circumstances there is a restriction on the amount of input tax that is available to set against output tax.

Partial intestacy The circumstances that arise if a will covers only part of the estate of the deceased. The part of the estate accounted for in the will is dealt with according to the wishes of the deceased as set out in the will, while the remainder is allocated in accordance with the rules of intestacy .

Participating interest An interest held by an undertaking in the shares of another undertaking, which it holds on a long-term basis for the purpose of securing a contribution to its activities by the exercise of control or influence arising from or related to that interest. This definition is based on that given in Financial Reporting Standard 2, Accounting for Subsidiary Undertakings. A holding of 20% or more of the shares of an undertaking is presumed to be a participating interest, unless the contrary is shown.

Participating preference share A preference share entitled to a fixed rate of dividend and a further share in the profits of a company, for example after the ordinary shares have received a certain percentage.

Participation Where two or more lenders share in a mortgage loan. Often used on large loans to spread the risk.

Participative budgeting The setting of a budget in which various levels of management are involved in fixing the budgeted levels of performance against which their actual performance will ultimately be measured.

Participator Any person having an interest in the capital or income of a company, e.g. a shareholder, loan creditor, or any person entitled to participate in the distributions of the company.

Partly paid shares Shares on which the full nominal or par value has not been paid. Formerly, partly paid shares were issued by some banks and insurance companies to inspire confidence, i.e. because they could always call on their shareholders for further funds if necessary. Shareholders, however, did not like the liability of being called upon to pay out further sums for their shares and the practice largely died out. It has been revived for large new share issues, especially in privatizations, in which shareholders pay an initial sum for their shares and subsequently pay one or more calls on specified dates .

Partnership accounts The accounts kept by a partnership. They include an appropriation account in which the profit of a partnership is shared between the partners in accordance with the partnership agreement. This may be in the form of salaries, interest on capital, and a share of the profit in the appropriate profit-sharing ratio. Each partner also has a capital account and a current account. The former is used to account for capital contributions, goodwill, and revaluations; the latter for all other transactions, such as appropriations of profit and drawings.

Partnership agreement An agreement made between the partners of a partnership. In the absence of either an express or an implied agreement the provisions of the Partnership Act (1890) apply. These provisions are also applicable if an agreement is silent on a particular point. The provisions are:

partners share equally in the profits or losses of the partnership;

Partners are not entitled to receive salaries;

Partners are not entitled to interest on their capital;

Partners may receive interest at 5% per annum on any advances over and above their agreed capital;

A new partner may not be introduced unless all the existing partners consent;

A retiring partner is entitled to receive interest at 5% per annum on his or her share of the partnership assets retained in the partnership after his or her retirement;

On dissolution of the partnership the assets of the firm must be used first to repay outside creditors, secondly to repay partners' advances, and thirdly to repay partners' capital. Any residue on dissolution should be distributed to the partners in the profit-sharing ratio.

Partnership Relationship between two or more persons based on a written, oral, or implied agreement whereby they agree to carry on a trade or business for profit and share the resulting profits. Unlike a corporation's shareholders, the partnership's general partners are liable for the DEBTS of the partnership.

Pas Could mean: Personal Accounting System, Personnel Accounting System, or Personnel Accounting Symbol.

Passive activity Is defined in the US Tax Code as one or more trades, business or rental activity, that the taxpayer does not materially participate in managing or running. All income and losses from passive activities are grouped together on an income tax return and, generally, loss deductions are limited or suspended until the passive activity that generated them is disposed of in its entirety.

Passive Activity Loss Loss generated from activities involved in the conduct of a trade or business in which the taxpayer does not materially participate.

Passive Income Includes income derived from such sources as dividends, interest, royalties, rents, amounts received from personal service contracts, and income received as a beneficiary of an estate or trust.

Password A sequence of characters required to gain access to a computer system. Passwords are used to restrict computer system access to only authorized persons.

Patent Is a legal form of protection that provides a person or legal entity with exclusive rights to exclude others from making, using, or selling a concept or invention for the duration of the patent. There are three types of patents available: design, plant, and utility.

Pathfinder prospectus An outline prospectus designed to test the market reaction to the flotation of a new company.

Patronage Dividends These dividends are amounts paid by a cooperative to its members and customers based on the quantity or value of business conducted with or for the members during the tax year.

Pay cycle Is a set of rules that defines the criteria by which scheduled payments are selected for payment creation, e.g., payroll may be on a weekly, bi-weekly, or monthly pay cycle.

Payable Is an amount awaiting payment to be made, e.g. interest payable or taxes payable.

Payable to bearer Describing a bill of exchange in which neither the payee or endorsee are named. A holder, by adding his or her name, can make the bill payable to order.

Payable to shareholders Normally refers to distribution of dividends to shareholders and / or repayment of notes held by shareholders.

Payback period method A method of capital budgeting in which the time required before the projected cash inflows for a project equal the investment expenditure is calculated; this time is compared to a required payback period to determine whether or not the project should be considered for approval. If the projected cash inflows are constant annual sums, after an initial capital investment the following formula may be used:

Payback (years) = initial capital investment/ annual cash inflow.

Otherwise, the annual cash inflows are accumulated and the year determined when the cumulative inflows equal the investment expenditure.

Payback period, In capital budgeting, is the length of time needed to recoup the cost of CAPITAL INVESTMENT. The payback period is the ratio of the initial investment (cash outlay, regardless of the source of the cash) to the annual cash inflows for the recovery period. The major shortcoming for the payback period method is that it does not take into account cash flows after the payback period and is therefore not a measure of the profitability of an investment project. For this reason, analysts generally prefer the DISCOUNTED CASH FLOW methods of capital budgeting; primarily, the INTERNAL RATE OF RETURN and the NET PRESENT VALUE methods.

Paying agency agreement to pay, upon presentation to one of its designated offices, the interest and capital sums due on a bearer bond.

Payment Is the satisfaction of a debt or claim; primarily money paid to fulfill an obligation.

Payout ratio Is dividends paid divided by company earnings over some period of time, expressed as a percentage.

Payroll Department that determines amounts of wage or salary due to each employee.

Peak Is the period of maximal use or demand or activity; for example, at peak commute hours, street traffic can be unbelievable.

Peer Review Process by which an accounting firm's practice is evaluated for compliance with professional standards. The objective is achieved through the performance of an independent review by one's peers.

Peg ratio Compares earnings growth and the Price Earnings Ratio. The PEG Ratio (formula) is the current Price Earnings Ratio divided by the expected long-term growth rate (per the earnings per share).

Penalties Amounts demanded by the tax authorities in excess of the tax due when certain statutory requirements have not been satisfied. The penalty regime for income tax and corporation tax differs from that for value added tax. For income tax and corporation tax the Inland Revenue has powers to impose penalties when it has been established that there has been a loss of tax as a result of the taxpayer's fraudulent or negligent conduct. Failure to submit a tax return attracts a fixed sum together with a daily penalty. The penalty for negligence or fraud depends on the amount of tax lost and can equal the tax lost. However, there is a mitigation procedure to reduce the penalty under certain circumstances. Value added tax penalties are more automatic without the same level of mitigation procedures. From 1 December 1993 the main VAT penalties are the misdeclaration penalty and the persistent misdeclaration penalty.

Penalty The various government codes contain numerous provisions which impose penalties on a taxpayer (any type of taxpayer) for failure to perform a specific act or omitting vital information on a return.

Pending Legal proceedings not yet decided.

Pending Usually refers to either: 1. Not yet decided; or, 2. Being in continuance.

Penny shares Securities with a very low market price (although they may not be as low as one penny) traded on a stock exchange. They are popular with small investors, who can acquire a significant holding in a company for a very low cost. Moreover, a rise of a few pence in a low-priced share can represent a high percentage profit. However, they are usually shares in companies that have fallen on hard times and may, indeed, be close to bankruptcy. The investor in this type of share is hoping for a rapid recovery or a takeover.

Pension fund Is a fund reserved to pay workers' pensions when they retire from service. Also known as SUPERANNUATION FUND.

Pension maximization Is a controversial strategy, often espoused by life insurance agents, of using insurance to augment a company benefit plan. Under this arrangement, a retiree takes pension payments for his or her own life only and buys life insurance to provide for a surviving spouse. Also known as pension max.

Pension Retirement plan offered by an employer for the benefit of an employee, usually at retirement, through a trustee who controls the plan assets.

Pension scheme Any arrangement the main purpose of which is to provide a defined class of individuals (called members of the scheme) with pensions. A pension scheme may include benefits other than a pension and may provide a pension for dependants of deceased members.

Per capita income Is the mean income computed for every man, woman, and child in a particular group. It is derived by dividing the total income of a particular group by the total population in that group.

Per diem An allowance for daily expenses. Often used to reimburse employees for estimated expenses as opposed to accounting for each small component of the expenses.

Per diem Is a. one every day (e.g., save 10 man-hours per diem); or, b. payment of daily expenses and/or fees of an employee or an agent.

Percentage design, In construction, is the percentage expended for design and construction management services in proportion to total construction.

Percentage lease Is a type of lease where the landlord charges a base rent plus an additional percentage of any profits realized by the business tenant.

Percentage of completion method of accounting Is instituted if your revenues exceed $10,000,000 (3-year average) or your contracts will not be completed within a two-year period, you are generally required to use the percentage of completion accounting for contracts. There are many advantages to using to percentage of completion method including:

It is the best measurement of income.

Percentage of completion normally needs to be computed for financial statement purposes eliminating confusing timing differences from tax to financial statements.

There is no increase in alternative minimum taxable income.

Losses can be recognized on contracts before the job is complete.

It is useful in leveling taxable income, permitting use of lower tax brackets each year.

When using the percentage of completion method, it is important to carefully compute the percent complete, for it may have a great impact on your taxable income.

Estimated costs to complete the contract, a component of calculating the percent to complete, determine what your taxable income will be. Also, carefully reviewing the over-head allocation may result in lower tax.

Percentage on direct labour cost A basis used in absorption costing for absorbing the production overheads into the cost units produced. The formula used is:

(budgeted production overheads × 100)/ budgeted direct labour cost.

Percentage on direct material cost A basis used in absorption costing for absorbing the manufacturing overhead into the cost units produced. The formula used is:

(budgeted manufacturing overhead × 100)/ budgeted direct material cost.

Percentage on prime cost A basis used in absorption costing for absorbing the manufacturing overhead into the cost units produced. The formula used is:

(budgeted manufacturing overhead × 100)/ budgeted prime cost.

Performance bond A guarantee given to customers in some industries that goods will be delivered to a specific standard. The bond is normally given by a company's bankers, who are indemnified by the company.

PERFORMANCE BUDGET Is a budget format that relates the input of resources and the output of services for each organizational unit individually. Sometimes used synonymously with program budget.

Performance indicators Are those empirical data points that indicate how well, or poorly, an entity is performing against preset goals and objectives. Normally, in business or strategic planning, a company will set targets over a specified period that the business believes are attainable and track performance over time to those targets or objectives.

Performance measures Ways in which the performance of whole organizations or parts of organizations, such as profit centres, cost centres, divisions, departments, and sections, and the managers responsible for these parts of the business, can be measured. Performance measures, which may be in the form of quantitative, qualitative, or financial measures, include measures based on profitability or comparison with budgets and standard-cost-based measures as well as the figures for previous periods.

Performance standard A standard, used in standard costing, of the level of performance to be achieved during a period. For example, a standard performance for direct labour of two standard hours to complete a task would be combined with the rate per standard hour for labour to create the standard direct labour cost for the task.

Performing asset Is an asset that provides a dependable annual financial return; for example, production machinery or, in transportation, an airliner.

Period concept The accounting concept that the financial statements of a company should be produced after regular periods. The profit and loss account and balance sheet are prepared at regular intervals, for example annually instead of after each transaction or event. This provides comparability, consistency, and regular communications.

Period cost Is an expense that is not inventoriable; it is charged against sales revenues in the period in which the revenue is earned (e.g., SG&A is a period cost). Also called period expense.

Period of account The period for which a business prepares its accounts, which is usually 12 months.

Periodic stocktaking (periodic inventory) The counting or evaluating of the stock held by an organization at the end of an accounting period. Movement of stock is restricted during the period of stocktaking.

Periodicity concept Is the concept that each accounting period has an economic activity associated with it, and that the activity can be measured, accounted for, and reported upon.

Perks Benefits arising as a result of employment, in addition to regular remuneration.

PERMANENCE Is the quality or state of being permanent; primarily judged by durability and useful life.

Permanent Audit documentation includes items of continuing accounting significance, such as the analysis of balance sheet accounts and contingencies. Such information from a prior year is used in the current audit and updated each year. Sometimes called the continuing file.

Permanent difference A difference between profits or losses computed for tax purposes and profits presented in the financial statements.

Permanent diminution in value A fall in the value of an asset that is unlikely to be reversed. The fixed asset must be shown in the balance sheet at the reduced amount, which will be the estimated recoverable amount. A provision has to be made through the profit and loss account; if this is subsequently found to be no longer required, it should be written back to the profit and loss account.

Permanent interest bearing share (PIBS) A fixed-interest non-redeemable security that pays interest at a rate fixed at issue. This is often 10-13.5%, giving investors a high yield for perpetuity. However, these shares carry the risks associated with fixed-interest securities, being the last to be paid out should an issuing building society go into liquidation.

Permissible capital payment (PCP) A payment made out of capital when a company is redeeming or purchasing its own shares and has used all available distributable profits as well as the proceeds of any new issue of shares.

Perpetrate Carry out an action such as a crime.

Perpetual An inventory accounting system updated for each addition to inventory and each issuance from inventory, so the records indicate the exact quantity on hand at any moment. The alternative is a periodic inventory system where actual inventory on hand is determined only once a year.

Perpetual annuity The receipt or payment of a constant annual amount in perpetuity. Although the word annuity refers to an annual sum, in practice the constant sum may be for periods of less than a year. The present value of a perpetual annuity is obtained from the formula:

$P = a \times 100/i$,

where P = present value, a = annual sum, and i = interest rate.

Perpetual debt A debt in respect of which the issuer has neither the right nor the obligation to repay the principal amount of the debt. Usually interest is paid at a constant rate, or at a fixed margin over a benchmark rate, such as LIBOR.

Perpetual inventory Is an inventory accounting system whereby book inventory is kept in continuous agreement with stock on hand. A daily record is maintained of the dollar amount and physical quantity. There are periodic physical inventories taken to reconcile at short intervals.

Perpetual succession Is one of the legal distinctions between a business and a company. A company has perpetual succession meaning that a change in the membership does not affect the existence of the company whereas a business does not enjoy this perpetual succession. For example, in the case of a partnership, which is one form of business registration, a change in the membership affects the partnership.

Perpetuity, In finance, is an annuity payable forever.

Persistent earnings Is the level of earnings, from accounting to accounting period, that are continually recurring.

Persistent misdeclaration penalty A penalty used in the collection of value added tax. It applies when there has been a material inaccuracy in a VAT return, being the lower of £500,000 and 10% of the total true amount of VAT due for the quarter. The trader must also have received a surcharge liability notice resulting from a previous error within the 15 months prior to the current VAT period. In these circumstances a penalty for repeated errors of 15% of the VAT lost will be charged.

Personal accounts Accounts used to record transactions with persons, for example debtors and creditors.

Personal Articles Floater Generally, an endorsement on an insurance policy that provides for all-risk coverage on scheduled (named) valuable personal property.

Personal equity Is that portion of equity ownership that is held to ones own benefit or invested as an integral part of the assets of a legal entity.

Personal equity plan (PEP) Was an investment plan in the U.K. that used to allow people over the age of 18 to invest in shares of U.K. companies. The plan encouraged investment by individuals. Discontinued in 1999, it was replaced by Individual Savings Accounts (ISA). It was done through an approved plan, qualifying unit trust, or investment trust. Investors received both income and capital gains free of tax.

Personal Financial Planning Process for arriving at a comprehensive plan to solve an individual's personal, business, and financial problems and concerns.

Personal Financial Specialist (PFS) Certified public accountant who specializes in personal financial planning and completes a series of requirements that include education, experience, ethics and an exam.

Personal Financial Statements Financial statements prepared for an individual or family to show financial status.

Personal Financial statements of individuals present assets and liabilities at estimated current value on an individual's balance sheet (statement of financial condition). A statement of changes in net worth presents major changes in net worth during a period. The accrual basis is used for assets and liabilities, which are presented in order of liquidity and maturity, without classification as to current and noncurrent. The cash value of life insurance less the amount of loans against it is an asset. Deferred income tax on the difference between the income tax basis and estimated current values is presented between liabilities and equity.

Personal investment authority (PIA) A Self-Regulating Organization that took over many of the responsibilities of FIMBRA and LAUTRO, and some of those of IMRO, in October 1994. It regulates investment business carried out mainly for private investors.

Personal ledger A ledger containing personal accounts, for example the debtors' ledger and the creditors' ledger.

Personal loan Is a short-term loan that is extended based on the personal integrity of the borrower.

Personal pension schemes Arrangements in which individuals contribute part of their salary to a pension provider, such as an insurance company or a bank. The pension provider invests the funds so that at retirement a lump sum is available to the pensioner. This is used to purchase an annuity to provide regular pension payments.

Personal Property Floater Generally, an endorsement on an insurance policy that covers all property individually owned no matter where it's located.

Personal Property Movable property that is not affixed to the land (real property). Personal property includes tangible items such as cash, cars and computers, as well as intangible items, such as royalties, patents and copyrights.

Personal Property Replacement Cost Endorsement A provision in an insurance policy that changes the recovery from an actual cash value basis to a replacement cost basis.

Personnel The department that maintains records of each individual's employment.

Pervasive Having the ability to permeate. An error is pervasive if it is material to more than one of the primary financial statements.

PERVASIVENESS OF ESTIMATES Means that the estimates have to be complete, of high quality and in depth, i.e., they have to adequately cover the whole accounting entity.

Petty cash book A book used to record petty cash transactions. It is usually kept in an imprest account.

Petty cash, Normally, is an account and location where tangible cash is stored for usage in purchasing or the reimbursing of inexpensive out-of-pocket expenditures.

Phantom Income Income reported on a tax basis for which no cash or financial benefit is realized.

Phantom profit Is hypothetical profit, i.e., no cash flow is generated. Appreciation on any asset, e.g. stock, is considered phantom profit unless or until the asset is sold, thereby generating cash flow.

Physical inventory Is the counting of all merchandise or equipment on hand.

Piecemeal opinion Expression of an opinion on an item in financial statements is not permitted as part of a disclaimer or adverse opinion on the financial statements as a whole because it would tend to overshadow or contradict a disclaimer of opinion or an adverse opinion.

Piercing the corporate veil Is a legal concept through which a corporation's shareholders, who generally are shielded from liability for the corporation's activities, can be held responsible for certain actions.

Piggyback, Dependent upon usage, can mean:

1. On the back or shoulder or astraddle on the hip;

2. Two lenders participating in the same loan (piggyback loan);

3. Unauthorized access to a data processing system via an authorized user's legitimate connection (piggyback entry);

4. Haul by railroad car;

5. SEC registration of existing holdings of shares in a corporation combined with an offering of new public shares (piggyback registration); 6. Rights that entitle an investor to register and sell his or her stock whenever the company conducts a public offering (piggyback rights).

Pink pearl Is a type of a pencil-lead eraser that auditing companies use.

Pipe (Private Investment in Public Equity) Refers to any private placement of securities of an already-public company that is made to selected accredited investors (usually to selected institutional accredited investors) wherein investors enter into a purchase agreement committing them to purchase securities and, usually, requiring the issuer to file a resale registration statement covering the resale from time to time of the securities the investors purchased in the private placement. PIPE transactions may involve the sale of common stock, convertible preferred stock, convertible debentures, warrants, or other equity or equity-like securities of an already-public company. There are a number of common PIPE transactions, including:

The sale of common stock at a fixed price;

The sale of common stock at a fixed price, together with fixed price warrants;

The sale of common stock at a fixed price, together with resettable or variable priced warrants;

The sale of common stock at a variable price;

The sale of convertible preferred stock or convertible debt; and

A venture-style private placement for an already-public company.

Piscan document, A precursor of double entry bookkeeping, dates from the early 12th century. Records indicate that primitive bookkeeping with sequential transactions using Roman numerals was presented in paragraph form. Some of the record fragments are from an unknown Florentine banking firm dated from 1211. It was not yet double entry bookkeeping, but advancing in that direction. Other fragments include the Castra Gualfred and the Borghesia Company from 1259-67; Gentile de' Sassetti and Sons, 1274-1310; and Bene Bencivenni, 1277-96. The most complete records are from Rinieri Fini & Brothers, 1296-1305, and Giovanni Farolfi & Co., 1299-1300.

Piti Is an acronym for Principal, Interest, Taxes and Insurance when dealing with property mortgages.

Placed deal A transaction in which a bank, or group of banks, undertakes to market an entire new issue of bonds or similar securities. Unlike a bought deal, the borrower is not guaranteed that the new issue will be successful. Such transactions are favoured by the smaller financial institutions, such as merchant banks, who do not have large marketing departments.

Placed in service Strictly a tax term. You can only start depreciating property (or take a Sec. 179 expense election) when the property is 'placed in service.' That means when the property is available for use in its assigned function. For example, you purchase a machine and it's not delivered until 1997. Even though you may have paid for the machine in 1996, you can't begin depreciation until 1997. Similarly, if the machine is delivered in 1996, but the technicians didn't arrive to install and test the machine until 1997, you can't begin depreciation until 1997.

Placement Is bank depositing Eurodollars with (selling Eurodollars to) another bank is said to be making a placement.

Placing power A measure of a bank's ability to sell bonds issued in the primary market to its own customers, compared to syndicating their sales through other banks.

Placing The sale of shares by a company to a selected group of individuals or institutions. Placings can be used either as a means of flotation or to raise additional capital for a quoted company . Placings are usually the cheapest way of raising capital on a stock exchange and they also allow the directors of a company to influence the selection of shareholders. The success of a placing usually depends on the placing power of the company's stockbroker. Placings of public companies are sometimes called public placings. In the USA a placing is called a placement.

Plan Audit planning is developing an overall strategy for conduct and scope of the audit. The nature, extent, and timing of planning vary with size and complexity of the entity, experience with the entity, and knowledge of the business. In planning the audit, the auditor considers the entity's business and its industry, its accounting policies and procedures, methods used to process accounting information, the planned assessed level of control risk, and the auditor's preliminary judgment about audit materiality.

Planning One of the functions of management accounting in which plans for the future activities and operations of an organization are incorporated into its budgets, etc.

Planning, programming, budgeting system (PPBS) A budgeting system developed particularly for use in non-profitmaking organizations, such as national and local government. The system is based on the grouping together of activities with common objectives and a long-term plan relating to the objectives of the organization as a whole, which is subdivided into programmes. Conventional annual expenditure budgeting procedures are applied within this framework.

Plant and equipment A category of tangible fixed assets that includes plant, machinery, fixtures and fittings, and other equipment.

Plant and machinery The equipment required to operate a business. No formal definition is given in the tax legislation. However, from the tax point of view the definition often used is that given in the taxation case *Yarmouth v. France* (1887). This defines plant and machinery as 'whatever apparatus is used by a businessman for carrying on his business - not his stock in trade which he buys or makes for resale: but all goods and chattels, fixed or moveable, live or dead, which he keeps for permanent employment in the business'. Subsequent cases have been concerned with the distinction between plant actively used in a business, and so qualifying as plant and machinery for capital allowances purposes, and expenditure on items that relate to the setting up of the business, which do not qualify for capital allowances.

Plant asset Is a non-current physical asset applicable to manufacturing activities.

Pledge Is a. the transfer or assignment of assets as collateral to secure payment of a debt obligation as when securities are pledged to a lender for a loan secured by the owner of the securities. When securities a pledged, the lender frequently requires the physical transfer of the collateral to preclude possibility of using the same asset for additional pledging; b. the deposit or placing of personal property as security for a debt or other obligation with a person called a pledgee. The pledgee has the implied power to sell the property if the debt is not paid. If the debt is paid, the right to possession returns to the pledgor; or, c. a written or oral agreement to contribute cash or other assets.

Pledged accounts receivable Is short-term borrowing from financial institutions where the loan is secured by accounts receivable. The lender may physically take the accounts receivable but typically has recourse to the borrower; also called discounting of accounts receivable.

Pledged asset Is an asset that is transferred to a lender as security for debt. The lender of the debt takes possession of the pledged asset, but does not have ownership unless default occurs.

Pledged revenues Is funds generated from revenues and obligated to debt service or to meet other obligations specified by the bond contract.

Plug Is a variable that handles financial slack in the financial plan.

Pnl Is Profit and Loss (statement/analysis; business/accounting).

Point of sale (POS) The place at which a consumer makes a purchase, usually a retail shop. It may, however, also be a doorstep (in door-to-door selling), a market stall, or a mail-order house.

Points Are additional fee paid to a lender. Points are generally stated as a percent of the total amount borrowed and are in essence prepaid interest. Points paid can be deducted over the life of the loan.

Points Payments to secure a loan, stated as a percentage of the borrowed amount. For example, 2 points is 2% of the loan.

Poison pill A tactic used by a company that fears an unwanted takeover by ensuring that a successful takeover bid will trigger some event that substantially reduces the value of the company. Examples of such tactics include the sale of some prized asset to a friendly company or bank or the issue of securities with a conversion option enabling the bidder's shares to be bought at a reduced price if the bid is successful. Poison pills are used all over the world but were developed in the USA.

Policy cost An item of expenditure incurred as a consequence of a policy determined by the management of an organization. For example, the insurance premium determined by a key-man insurance policy taken out by an organization will be directly related to the sum assured.

Policy Face Amount The maximum amount payable under an insurance policy, so-called because the amount is printed on the face of the policy.

Political and charitable contributions Donations for political or charitable purposes made by an organization. Under the Companies Act a disclosure of such a donation has to be made by companies that are not wholly owned subsidiary undertakings of another company. Charitable purposes is taken to mean purposes that are exclusively charitable. A donation for political purposes is taken to mean the giving of money either directly or indirectly to a political party. The total amounts given for both political and charitable purposes must be separately disclosed.

Political costs hypothesis Predicts that firms with low agency and political costs and effective shareholders' monitoring will distribute cash dividend and those with moderate agency and political costs may use stock dividends in lieu of cash dividends to separate themselves from firms having high agency and political costs. This indicates that cash dividend firms will face better long-term stock market valuation of their shares than stock dividend firms.

Political credit risk The credit risk that arises as a result of actions by a foreign government, which may affect the management of a foreign business, control of its assets, and its ability to make payments to its creditors.

Pool Is: 1. A group of people organized for a specific purpose or any communal combination of funds;

2. in capital budgeting, the concept that investment projects are financed out of a pool of bonds, preferred stock, and common stock, and a weighted-average cost;

3. in insurance, a group of insurers who share premiums; and

4. in investments, the combination of funds for the benefit of a common project, or a group of investors who use their combined influence to manipulate prices.

Pooling of interest method Is an accounting method for reporting acquisitions accomplished through the use of equity. The combined assets of the merged entity are consolidated using book value, as opposed to the PURCHASE METHOD, which uses market value. The merging entities' financial results are combined as though the two entities have always been a single entity.

Pooling-of-interests, In the US, is the method of accounting used in a business combination in which the acquiring company has issued voting common stock in exchange for voting common stock of the acquired company. The features of the method are that the acquired company's net assets are brought forward at book value, retained earnings and paid-in capital are brought forward, the net income is recognized for the full financial year regardless of the date of acquisition, and the expenses of pooling are immediately charged against earnings. In order to use the method there are a number of criteria to be met concerning the prior independence of the companies and the nature and timing of the acquisition.

Pop Is an acronym for, among others, Point Of Presence or Post Office Protocol (Internet e-mail protocol).

Population size The number of items in the population from which a sample is drawn.

Portfolio Income Interest, dividends, royalties, and gains from the sale of stocks and bonds as well as other investment activities. Portfolio income is generally not considered passive income. Portfolio income cannot be offset by passive losses except those passive losses remaining after the disposition of a passive activity.

Portfolio insurance (portfolio protection) The use of a financial futures and options market to protect the value of a portfolio of investments. For example, a fund manager may expect the general level of prices to fall on the stock exchange. The manager could protect the portfolio by selling the appropriate number of index futures, which could then be bought back at a profit if the market falls. Alternately, the manager could establish the value of the portfolio at current prices by buying put options, which would provide the opportunity to benefit if there was a rise in the general level of prices.

Portfolio Is a term for describing all the investments that an entity owns. A diversified portfolio contains a variety of investments.

Portfolio theory The theory that rational investors are averse to taking increased risk unless they are compensated by an adequate increase in expected return. The theory also assumes that for any given expected return, most rational investors will prefer a lower level of risk and for any given level of risk they will prefer a higher return than a lower return. A set of efficient portfolios can be calculated from which the investor will choose the one most appropriate for their risk profile.

Positive accounting theory Is where theorists tend to explain why some accounting practices are more popular than others (e.g., because they increase management compensation). They tend to support their conclusions with inductive theory and empirical evidence as opposed to deductive methods. Generally avoid advocacy of one accounting rule as being better or worse than its alternatives. Positivists are inspired by anecdotal evidence, but anecdotal evidence is never permitted without more rigorous and controlled scientific investigation.

Positive assurance A statement as to what the CPA believes. An example is an opinion that the financial statements are presented fairly in conformity with GAAP. The opposite is negative assurance, a statement about what the CPA does not know. A statement that the CPA was "not aware of material modifications that should be made to financial statements for them to conform with generally accepted accounting principles" is negative assurance used in review reports.

Positive confirmation (positive request) The positive form of receivables confirmation asks the customer to respond whether the customer agrees or disagrees with the client's reported receivable balance. The negative form of accounts receivable confirmation asks the client's customer to respond only if the customer disagrees with the balance determined by the client. The negative form is used when controls over receivables are strong and accounts receivable consists of many accounts with small balances. The positive form is used when controls are weak or there are fewer, but larger, accounts.

Post date Is placing on a document or a check a date that follows the date of the initiation or execution of the document. For example, a post dated check cannot be cashed until the date written on the check.

Post It the transfer of accounting entries from a journal of original entry into a ledger book, in chronological order according to when they were generated.

Post-cessation receipts Amounts accruing from a trading activity that are received after the trade has ceased. For tax purposes the receipts are treated as income in the year of receipt, from which any relevant trade expenses incurred can be deducted. An election can be made to treat post-cessation receipts as income in the year the trade ceased rather than the year of receipt.

Post-date To insert a date on a document that is later than the date on which it is signed, thus making it effective only from the later date. A postdated (or forward-dated) cheque cannot be negotiated before the date written on it, irrespective of when it was signed.

Posting, In bookkeeping, is to list on the company's records, such as to list the detail of sales and purchases on the accounts receivable or payable records.

Post-Retirement Benefits Pensions, health care, life insurance and other benefits that are provided by an employer to retirees, their dependents, or survivors.

Postulate, In logic, is a proposition that is accepted as true in order to provide a basis for logical reasoning.

Potentially exempt transfer (PET) A lifetime gift made by an individual to another individual, or into an interest-in-possession trust that does not attract a liability to inheritance tax at the date of the gift. No charge occurs if the donor survives seven years after the date of the gift. If death occurs within seven years of the gift, the total lifetime gifts in the seven years preceding death are reviewed. The gifts are taken in chronological order with the first £223,000 worth of gifts being covered by the nil-rate band. Gifts in excess of this sum are charged at death rates with abatement for gifts made between three and seven years before death.

Power of Sale A clause in a mortgage or similar instrument that gives the lender the power to sell the property in case of a default. The property must generally be sold at auction, but the lender does not have to go through a court proceeding to do so.

PPBS *Abbreviation for* planning, programming, budgeting system.

Ppe Can mean either Property, Plant, and Equipment, or Pay Period Ending.

Pr Is an acronym for, among others, 'public relations', 'payroll' and 'purchase request'.

Practical capacity Is where the cost of production is based on the 'practical capacity' of production facilities. Therefore, the proportion of overheads allocated to a unit of production is not to be increased as consequence of idle capacity of the plant.

Practice notes Notes issued by the Auditing Practices Board to assist auditors when applying Statements of Auditing Standards of general application to particular cirumstances and industries. These notes are intended to indicate good practice and to be persuasive rather than prescriptive.

Pre-acquisition profits The profits of an acquired company that were made prior to the takeover.

Preceding-year basis (PYB) A basis for assessing the profits made by a business prior to 1997-98. It was replaced by current year basis of assessment from 1997-98 onwards.

Precept A command by the Commissioners of Inland Revenue to a taxpayer to make certain relevant documents available, usually by a specified date.

Predecessor auditor The auditor of a client for a prior year who no longer audits that client.

Predetermined overhead rate An overhead absorption rate computed in advance of operations. In practice, most absorption rates are computed from budgeted figures and are therefore predetermined overhead rates, which usually cover one year.

Predictor ratios: Most ratios are descriptive in nature; that is, they describe the firm as it is now. As you might expect, Predictor Ratios provide suggestions about likely future conditions for the firm. VentureLine provides two industry standard Predictor Ratios:

Altman Z-Score - a valid predictor or bankruptcy, and,

Sustainable Growth Rate - shows the degree to which a concern can grow using their retained earnings to fund growth.

Pre-emption rights A principle, established in company law, according to which any new shares issued by a company must first be offered to the existing shareholders as the legitimate owners of the company. To satisfy this principle a company must write to every shareholder , involving an expensive and lengthy procedure. Newer methods of issuing shares, such as vendor placings or bought deals, are much cheaper and easier to effect, although they violate pre-emption rights.

Preemptive right Is the right of a current stockholder to maintain the percentage ownership interest in the company by buying new shares on a pro rata basis before they are issued to the public.

Preference dividend A dividend payable to the holders of preference shares. Preference dividends not paid in previous periods will only be due to the holders of cumulative preference shares.

Preference share A share in a company that is entitled to a fixed percentage dividend rather than a variable dividend; for example, a 6% preference share pays a dividend of 6% per annum. If the company goes into liquidation, the preference shares are paid out after debt capital, but before ordinary share capital. According to Financial Reporting Standard 4, Capital Instruments, preference shares should be classified as non-equity shares.

Preference share capital Is capital raised by an entity through the sale of preferred shares.

Preferential creditor A creditor whose debt will be met in preference to those of other creditors and who thus has the best chance of being paid in full on the bankruptcy of an individual or the winding-up of a company. Preferential creditors, who are usually paid in full after secured liabilities and before ordinary creditors, include: the Inland Revenue in respect of PAYE, Customs and Excise in respect of VAT and car tax, the DSS in respect of National Insurance Social Security contributions, the trustees of occupational pensions schemes, and employees in respect of any remuneration outstanding.

Preferential debt A debt that will be repaid in preference to other debts.

Preferred creditor Is a creditor whose account takes legal preference for payment over the claims of others.

Preferred stock, Usually, non-voting capital stock that pays dividends at a specified rate and has preference over common stock in the payment of dividends and the liquidation of assets.

Preliminary announcement An early announcement of their profit or loss for the year that listed companies are required to make under Stock Exchange Regulations. The minimum information is a summarized profit and loss account, although there has been a trend for companies to provide other information, such as balance sheets. Companies must lodge their preliminary announcement with the Stock Exchange, but there is no requirement to send the information to shareholders. A number of companies publish some of the information in national newspapers and provide investment analysts and journalists with substantial information, which receives considerable comment in the press. The Accounting Standards Board has issued a guide to best practice in respect of preliminary announcements.

Preliminary expenses Expenses incurred in the setting up of a company, for example the cost of issuing shares. These expenses may be written off to the share premium account.

Premium (1) Excess amount paid for a bond over its face amount.

(2) In insurance, the cost of specified coverage for a designated period of time.

Premium on capital stock Is excess received over the par value of stock issued. The premium account is shown under the paid-in capital section of stockholder's equity because it resulted from the issuance of stock. It is not an income statement account since the company earns profit by selling goods and services to outsiders, not by issuing shares of stock to owners.

Pre-operating costs Are costs that are deferred until the related assets are ready for revenue service at which time the costs are charged to operations.

Prepaid expenses Are amounts that are paid in advance to a vender or creditor for goods and services. Typically, insurance premiums are paid in advance of the coverage contained in the policy. Prepaid Expenses is a Current Asset for your business. This is because you have paid for something and someone owes you the service or the goods for which you prepaid.

PREPAYMENT Is the payment of all or part of a debt prior to its due date.

Present value Is the discounted value of a payment or stream of payments to be received in the future, taking into consideration a specific interest or discount rate. Present Value represents a series of future cash flows expressed in today's dollars. A given amount of money is almost always more valuable sooner than later, so present values are generally smaller than corresponding future values.

Presentation Assertions about presentation deal with whether particular financial statement components are properly classified and described. For example, management asserts that long-term liabilities in the balance sheet will not mature in one year. Similarly, management asserts that extraordinary items in the income statement are properly classified and described.

Preventive Controls These have the objective of preventing errors or fraud from occurring in the first place that could result in a misstatement of the financial statements.

Price At The Time of Delivery. A term used in sales contracts when market prices are so volatile that a vendor will not give a firm price or use an escalator clause but will only agree to charge the price charged other customers for similar purchases on the day he ships or delivers the goods.

Price earnings multiple: The price-earnings ratio (P/E) is simply the price of a company's share of common stock in the public market divided by its earnings per share. Multiply this multiple by the net income and you will have a value for the business. If the business has no income, there is no valuation. If the common stock in not publicly traded, valuation of the stock is purely subjective. This may not be the best method, but can provide a benchmark valuation.

Price elasticity Is the degree to which customers respond to price changes (calculation: % change in quantity *divided by* % change in price). A value greater than 1 = customers exhibit a good sensitivity to price. A value less than 1 = customers are insensitive to price. Price Elasticity is if a small change in price is accompanied by a large change in quantity demanded, the product is said to be **elastic** (or responsive to price changes). A product is **inelastic** if a large change in price is accompanied by a small amount of change in demand.

Price fixing Is an illegal practice where competing companies agree, informally or formally, to jointly restrict or control prices within a specified range.

Price Is the property of having material worth. Price is usually indicated by the amount of money something would bring if or when sold.

Price mix Is the value of the product determined by the producers. Price mix includes the decisions as to: Price level to be adopted; discount to be offered; and, terms of credit to be allowed to customers.

Price Protection An agreement by a vendor with a purchaser to grant the purchaser any reduction in price which the seller may establish prior to, or within a certain time after, shipping of the purchaser's order.

Price to book Is a financial ratio that is derived by dividing a stock's capitalization by its book value. Also called Market-to-Book.

Price to earnings ratio (P/E) Is a performance benchmark that can be used as a comparison against other companies or within the stock's own historical performance. For instance, if a stock has historically run at a P/E of 35 and the current P/E is 12, you may want to explore the reasons for the drastic change. If you believe that the ratio is too low, you may want to buy the stock. You will generally find a P/E ratio based on either the prior reporting year's earnings, or the earnings of the prior four quarters added together (LTM or Latest Twelve Months)

Price to revenue Is a financial ratio derived by dividing current stock price by revenue per share (adjusted for stock splits).

Price-dividend ratio (PDR; P/D ratio) The current market price of a company share divided by the dividend per share for the previous year. It is a measure of the investment value of the share.

Price-earnings ratio (P/E ratio) The current market price of a company share divided by the earnings per share (eps) of the company. The P/E ratio usually refers to the annual eps and is expressed as a number (e.g. 5 or 10), often called the multiple of the company. Loosely, it can be thought of as the number of years it would take the company to earn an amount equal to its market value. High multiples, usually associated with low yields, indicate that the company is growing rapidly, while a low multiple is associated with dull no-growth stocks. The P/E ratio is one of the main indicators used by fundamental analysts to decide whether the shares in a company are expensive or cheap, relative to the market.

Price-level accounting A system of accounting that attempts to take into account changes in price levels, thus avoiding some of the criticisms of historical cost accounting. There have been many proposed methods but they have not been implemented, often because of the practical difficulties in operating them.

Price-sensitive information Information (usually unpublished) about a company that is likely to cause its share prices to move.

Pricing The setting of selling prices for the products and services supplied by an organization. In many cases selling prices will be based on market prices but in other circumstances pricing will be based on costs, using information provided by the management accounting system.

Primary auditor The auditor of the primary company, i.e. the holding company, when group accounts are being prepared. The primary auditor is responsible for the audit opinion on the group's financial statement.

Primary dealer Is a designation given by the Federal Reserve System to commercial banks or broker/dealers who meet specific criteria, including capital requirements and participation in Treasury auctions. A primary dealer is entitled and obligated to purchase and sell government securities with the Federal Reserve directly. They serve as the conduits for Federal Reserve open market activities. There are approximately 30-40 such dealers.

Primary earnings per share In the USA, a calculation for assessing the performance of companies with complex capital instruments. The net income available to holders of common stock is divided by the weighted average of the common stock outstanding plus common-stock equivalents; common-stock equivalents are securities that can be converted into common stock. The figure is shown on the face of the income statement.

Primary market Is the first sale of a newly issued security. Those securities are purchased in the primary market. All subsequent trading of those securities is done in the secondary market.

Prime brokers Are providers of back-office administration and stock lending for hedge funds.

Prime cost Is equal to the sum of DIRECT MATERIAL plus DIRECT LABOR.

Prime documents The documents used to initiate and record the accounting entries in an accounting or management accounting system. Prime documents include invoices, materials requisitions, materials returns notes, and direct charge vouchers.

Prime rate Is the interest rate that banks charge to their preferred customers. Changes in the prime rate influence changes in other rates; mortgage interest rates for example.

Principal auditor The auditor responsible for the greater portion of financial statements. The principal auditor may assume responsibility for the work of the other auditor or divide responsibility with the other auditor.

PRINCIPAL Is: a. a person who has controlling authority (e.g. the CEO or owner of a company) or is in a leading position (part owners of a legal entity); or, b. a matter or thing of primary importance, e.g. is the amount of a loan, excluding interest, or the amount you invest, excluding income.

Principal private residence The main private dwelling house of an individual. Gains arising on the disposal of this dwelling are exempt for capital gains tax.

Prior period Refers to accounting periods that have occurred in the past.

Prior-period adjustments Material adjustments applicable to prior financial periods arising from changes in accounting policies or from the correction of fundamental errors. They do not include normal recurring adjustments or corrections of accounting estimates made in prior periods. Under Financial Reporting Standard 3, if prior-period adjustments fall within these definitions, the financial statements for the current period should not be distorted, but the prior periods should be restated with an adjustment to the opening balance of the retained profit.

Private corporation Is a corporation that ownership is held by the private sector, i.e. individuals or companies.

Private ledger A ledger containing confidential accounts. A control account may be used to link it to the general ledger.

Private Letter Ruling These are written pronouncements interpreting the Internal Revenue Code with respect to a specific set of facts and circumstances. Letter rulings arise from a taxpayer's request to interpret the law, usually before engaging in a transaction. For example, when two corporations decide to merge, they typically request a letter ruling to insure the transaction will be tax free. The ruling applies only to the taxpayer requesting it and cannot be cited as precedent. Despite the filing fee and legal costs involved in obtaining a ruling, if the tax consequences are substantial, a ruling is often advisable.

Private limited company Any limited company that is not a public limited company. Such a company is not permitted to offer its shares for sale to the public and it is free from the rules that apply to public limited companies.

Private Limited Partnership A partnership that does not have to be registered with the SEC, but can have no more than 35 accredited partners.

Private placement (DEBT) Is the sale of a bond or other security directly to a limited number of investors; used in the context of general equities. For example, sale of stocks, bonds, or other investments directly to an institutional investor like an insurance company, avoiding the need for the registration with the regulator if the securities are purchased for investment as opposed to resale.

Privatization The process of selling a publicly owned company to the private sector. Privatization may be pursued for political as well as economic reasons. The economic justification for privatization is that a company will be more efficient under private ownership, although most economists would argue that privatization will only achieve this if it is accompanied by increased competition. Recently, privatizations in the form of share offers to the general public have been advocated as a means of increasing the participation of individuals in the capitalist system. The process can also be called denationalization.

Privilege A right or immunity granted as a peculiar benefit advantage.

Privity An interest in a transaction, contract or legal action to which one is not a party, arising out of a relationship to one of the parties.

Pro Forma Presentation of financial information that gives effect to an assumed event (e.g., merger).

Pro rata Is the basis for allocating an amount proportionally to the items involved. An amount may be proportionally distributed to assets, expenses, funds, etc.

Pro Rata Liability Clause When more than one insurance company covers a property, the clause provides a formula for sharing liability among the companies.

Probability proportional to size (pps) sampling A sampling plan that bases the likelihood of selecting a particular account on the relative size of that account, so larger accounts have a greater probability of being selected for the sample than smaller accounts probable A contingent loss is probable if it is uncertain but likely to happen.

Probability The likelihood that a particular outcome will occur, on a scale of 0 (zero probability or certainty that it will not occur) to 1 (certainty that it will occur). Where probabilities are used in decision-making models they are usually subjective in nature.

Probate Property Assets owned by the decedent in his or her name alone or as tenant in common on the date of his or her death that pass by will or the laws of intestacy to another party.

Probate value A valuation of all the assets included in the estate of a deceased person at the date of his or her death. The valuation must take account of any restrictions on the use of the assets.

Procedure An action, such as a step performed as part of an audit program or as part of the client's internal controls.

Proceeds, Generally in business, is the total amount brought in, e.g. the proceeds of a sale. In insurance, it is the net amount received (as for a check or from an insurance settlement) after deduction of any discount or charges.

Process An operation in the production cycle of an organization that contributes to the completion of a product or cost unit.

Process costing Is a method of cost accounting applied to production carried out by a series of chemical or operational stages or processes. Its characteristics are that costs are accumulated for the whole production process and that average unit costs of production are computed at each stage.

Processing Control is an internal control included in computer software designed to assure that all transactions are handled as authorized and none omitted or added.

Procurement, From a business perspective, is the purchasing of services or materials.

Producer price index (PPI) Measures the average change over time in the selling prices received by domestic producers for their output. The prices included in the PPI are from the first commercial transaction for many products and some services.

Product An item, sub-assembly, part, or cost unit manufactured or sold by an organization.

Product cost Is cost of inventory on hand, also called Inventoriable Cost. They are assets until the products are sold. Once they are sold, they become expense, i.e. Cost of Good Sold (COGS). All manufacturing costs are product costs, e.g., direct material, direct labor, and factory overhead.

Product mix Involves planning and developing the right type of product that will satisfy fully the needs of customers. A product has several dimensions. These dimensions are collectively called 'product mix'. Product mix for example may consist of size and weight of the product, volume of output, product quality, product design, product range, brand name, package, product testing, warranties and after sales services and the like.

Production budget (operating budget) A budget set for the production function of an organization under a system of budgetary control, which includes, inter alia, the production volumes and the production cost to be incurred in a budget period. It will usually provide an analysis of the budgets by product and by accounting period.

Production cost (total cost of production) The total of all the costs incurred in producing a product or cost unit. In a manufacturing account the production cost is represented by the total of the prime costs and the manufacturing overhead.

Production cost centre An area of an organization, such as a function, department, section, individual, or any group of these, in which production is carried out.

Production cost of sales The production cost of the goods sold during an accounting period. It is made up of the direct cost of sales and the manufacturing overhead incurred during the period, adjusted by the opening and closing values of work in progress and the opening and closing values of the stocks of finished goods.

Production cost variance The variance arising in standard costing when the standard cost of the actual production is compared with the actual cost incurred. If the standard cost is higher than the actual cost a favourable variance arises, while if the actual cost exceeds the standard cost an adverse variance occurs. The production cost variance is usually analysed into the direct materials variances, the direct labour variances, and the fixed and variable overhead variances.

Production cycle The portion of an entity that acquires resources and converts them to the product or service for customers.

Production department A section of an organization in which production is carried out.

Production herd A group of living animals or other livestock kept for their products, such as milk or wool, or for their young.

Production order (manfacturing requisition) A form issued to the production department of an organization specifying the production to be carried out by the department. A production order gives, inter alia, a description of the operations to be carried out, the quantities to be produced, the time allowed, and the completion times.

Production order A document that initiates the manufacturing process.

Production planning The administrative operations ensuring that the material, labour, and other resources necessary to carry out production are available when and where they are required in the necessary quantities.

Production The cost units manufactured by an organization. Production may be measured in units, direct labour hours, machine hours, or direct labour cost.

Production-unit method (*units of production method of depreciation*) A method of computing the depreciation charge for a period on a piece of machinery in which the depreciation charge is based on the number of production units manufactured by the machine. When the machinery to be depreciated is purchased an estimate is made of the total number of units of production that will be made by the machine over its lifetime. A rate per production unit is then computed and applied to the production over the life of the machinery. The formula per production unit is as follows:

Original cost - estimated residual value/estimated number of production units.

Unlike the straight-line method of depreciation, which treats depreciation as a fixed cost, the production-unit method treats depreciation as a variable cost.

Productive activity Usually is defined as including activities that have economic value in the marketplace. A more contemporary definition of productive activity includes any activity that produces a valued good or service, even if it is not actually paid for.

PRODUCTIVITY Is a measured relationship of the quantity and quality of units produced and the labor required per unit of time.

Productivity ratio Is the ratio of outputs to inputs. The closer the ratio is to 1.0, the higher the productivity; the closer the ratio is to 0.0, the lower the productivity. Productivity is important because it relates to an organization's ability to compete, and to the overall wealth and standard of living of a nation. Productivity is affected by work methods, capital, quality, technology, and management.

Professional fee Is that fee charged for services from university trained professionals; primarily doctors, lawyers and accountants. The term is often expanded to include other university trained professions, e.g. pharmacists charging to maintain a medicinal profile of a client or customer.

Professional services Are those services offered by university trained professionals, e.g. doctors, lawyers, and accountants for, normally, a professional fee.

Professional subscriber Means all other persons who do not meet the definition of Non-Professional Subscriber.

Proficiency As an auditor includes the auditor's formal education and subsequent experience. The independent auditor must undergo training adequate in technical scope, including commensurate general education. The assistant entering an auditing career must obtain experience with proper supervision and review of his or her work by a more experienced superior.

Profit & loss account Shows the net profit which is left after all relevant business expenses have been deducted.

Profit after tax (PAT) Is the net profit earned by the company after deducting all expenses like interest, depreciation and tax. PAT can be fully retained by a company to be used in the business. Dividends, if declared, are paid to the share holders from this residue.

Profit and loss account (P & L account) 1. An account in the books of an organization showing the profits (or losses) made on its business activities with the deduction of the appropriate expenses.

2. A statement of the profit (or loss) of an organization derived from the account in the books. The profit and loss account usually consists of three parts. The first is a trading account, showing the total sales income less the costs of production, etc., and any changes in the value of stock or work in progress from the last accounting period. This gives the gross profit (or loss). The second part gives any other income (apart from trading) and lists administrative and other costs to arrive at a net profit (or loss). From this net profit before taxation the appropriate corporation tax is deducted to give the net profit after taxation. In the third part, the net profit after tax is appropriated to dividends or to reserves.

Profit and loss account formats The four formats given for profit and loss accounts by the Companies Act (1985):

Vertical format, analysing costs by type of operation and function;

Vertical format, analysing costs by items of expense;

Horizontal format, analysing costs by type of operation or function;

Horizontal format, analysing costs by items of expense.

The following three items must be disclosed on the face of the profit and loss account irrespective of which format is selected.

1. Profit or loss on ordinary activities before taxation.

2. Any amount set aside or proposed to be set aside to, or withdrawn or proposed to be withdrawn from, reserves.

3. The aggregate amount of dividends paid and proposed.

Financial Reporting Standard 3, Reporting Financial Performance, issued in October 1992, has developed the format given in the Companies Act, by adopting a layered format requiring the following components to be shown:

The results of continuing operations, including the results of any acquisitions;

The results of discontinued operations;

Profits and losses on the sale or termination of an operation, costs of fundamental reorganization or restructuring, and profits or losses on the disposal of fixed assets;

Any extraordinary items.

4. profit and loss account reserve A reserve that contains the balance of retained earnings to carry forward. It is fully distributable and shown as part of shareholders' reserves on the balance sheet.

5. profit and loss appropriation account A

statement showing how the net profits or losses have been dealt with. In a company, the retained earnings brought forward is added to the net profit for the year; from this total taxation and dividends paid and proposed are deducted; other transfers to and from reserves are deducted or added as appropriate. In partnership accounts the profit or loss available for appropriation is given at the beginning of the statement. Each partner's contribution of interest on drawings and entitlement to salary and interest on capital, as appropriate, are deducted, leaving a balance to be shared between the partners in the profit-sharing ratio. 6. profit centre A section or area of an organization to which revenue can be traced, together with the appropriate costs, so that profits can be ascribed to that area. Profit centres may be divisions, subsidiaries, or departments. 7. profit forecast A forecast by the directors of a public company of the profits to be expected in a stated period. If a new flotation is involved, the profit forecast must be reported on by the reporting accountants and the sponsor to the share issue. An existing company is not required to make a profit forecast with its accounts, but if it does it must be reported on by the company's auditors.

Profit and loss sharing (PLS) Is the method utilized in Islamic banking to comply with the prohibition of interest. The Islamic solution, commonly referred to as Profit & Loss Sharing (PLS), suggests an equitable sharing of risks and profits between the parties involved in a financial transaction. In the banking business, there are three parties - the entrepreneur or the actual user of capital, the bank which serves as a partial user of capital funds and as a financial intermediary, and the depositors in the bank who are the suppliers of savings or capital funds. There are two different partnerships of the type mentioned in Islam: the partnership between the depositors and the bank, and the partnership between the entrepreneur (or the borrower) and the bank. Under this proposal, financial institutions will not receive a fixed rate of interest on their outstanding loans, rather, they share in profits or in losses of the business owner to whom they have provided the funds. Similarly, those individuals who deposit their funds in a bank will share in the profit/loss of the financial institution.

Profit and loss statement (P&L) Is also known as an income statement. It shows your business revenue and expenses for a specific period of time. The difference between the total revenue and the total expense is your business net income. A key element of this statement, and one that distinguishes it from a balance sheet, is that the amounts shown on the statement represent transactions over a period of time while the items represented on the balance sheet show information as of a specific date (or point in time).

Profit before taxes Is operating profit minus all other expenses (net).

Profit center Is a section of an organization that is responsible for producing profit, e.g., a division of a corporation that is not a stand-alone entity but is required to produce profits within the corporation.

Profit Is the excess of revenues over outlays in a given period of time (including depreciation and other non-cash expenses).

Profit margin on sales Is: A. Gross Profit Margin on Sales = Gross Profit/Sales 100; or, b. Net Profit Margin on Sales = Net Profit After Tax/ Sales 100.

Profit multiple: Profit and Sales multiples are the most widely used valuation benchmarks used in valuing a business. The information needed are pretax profits and a market multiplier, which may be 1, 2, 3, or 4 and usually a ceiling of 5. The market multiplier can be found in various financial publications, as well as analyzing the sale of comparable businesses. This method is easy to understand and use. The profit multiple is often used as the valuation ceiling benchmark.

Profit on manufacture (production profit) The margin obtained when manufactured items or finished goods are transferred from the factory at a price in excess of the cost of production. The technique is used in organizations wishing to submit the production departments to market prices and therefore credit production according to some formula; for example, at a price per unit. The system may also create a loss on manufacture.

Profit Sharing Plan Defined contribution plan characterized by the setting aside of a portion of an entity's profits in participant's accounts.

Profit variance A variance in standard costing made up of the difference between the standard operating profit budgeted to be made on the items sold and the actual profits made. The analysis of the profit variance into its constituent sales, direct labour, direct material, and overhead variances provides the management of the organization with information regarding the source of the gains and losses compared to the predetermined standard.

Profitability index (PI) A method used in discounted cash flow for ranking a range of projects under consideration in which standard cash flow patterns are projected. It is based on the ratio:

(total present values of cash inflows)/initial investment, the value of which is compared for each project.

The projects with a PI of less than 1 are not expected to earn the required rate of return and are rejected. The projects with a PI in excess of 1 are ranked according to the magnitude of the PI.

PROFITABILITY Is company's ability to generate revenues in excess of the costs incurred in producing those revenues.

Profitability ratios Are measures of performance showing how much the firm is earning compared to its sales, assets or equity.

Profit-related pay (PRP) A scheme enabling employees to be paid part of their salary tax-free, which will be phased out in the year 2000. Payments to employees under a registered scheme can be tax-free up to the maximum for the year. For profit periods beginning in 1999 there is relief of £1000 or 20% of total pay, whichever is the lower.

Profit-sharing ratio (PSR) The ratio in which the profits or losses of a business are shared. For a partnership, the profit-sharing ratios will be set out in the partnership agreement. This will show the amount, usually given as a percentage of the total profits, attributable to each partner. In some agreements there is a first charge on profits, which is an allocation of the first slice of the profits for the year. The remainder will then be split in the profit-sharing ratios as specified in the agreement. The profit-sharing ratios can also apply to the capital of the partnership, but this does not always follow. The partnership agreement can specify a different capital-sharing ratio. If no specific agreement has been made, profits and losses will be shared equally in accordance with the Partnership Act (1890).

Profit-sharing scheme An approved share option scheme, introduced in the Finance Act. The scheme involves setting up a trust to hold the shares, for at least two years, before the employee to whom the shares are allocated can sell them. Provided the employee does not sell the shares for five years there will be no income tax charge on their disposal, although capital gains tax will be due on any profit.

Profit-volume chart (PV chart) A graph showing the profits and losses to be made at each level of activity. The profit/loss line is usually plotted as a linear function, and the graph shows the total fixed cost level as the loss at zero activity, the breakeven point activity level, and the profits or losses at each level of production or sales.

Pro-forma financial statements Financial statements for a period prepared before the end of the period, which therefore contain estimates.

Pro-forma invoice Is A price quote. It is written as an invoice, and, in effect, says: 'This is the purchase price and terms we are offering.'

Pro-forma Is to provide in advance to a prescribed form or to describe items <*pro forma* financial statement or *pro forma* invoice>.

Program An audit program is a listing of audit procedures to be performed in completing the audit. A computer program (software) is a listing of steps to be performed in processing the data.

Program budget Is A budget wherein inputs of resources and outputs of services are identified by programs without regard to the number of organizational units involved in performing various aspects of the program.

Programmed Controls are built into computer software and include reasonableness tests, control totals, and sequence checks.

Progress billings Are interim billings for construction work or government contract work. The entry is to debit progress billings receivable and credit progress billings on construction in progress. Progress billings is a contra account to CONSTRUCTION-IN-PROGRESS.

Progress payment (payment on account) A stage payment made to a contractor based on the level of work completed at a specified date, as certified by an agreed authority. It is used in the costing of long-term contracts, such as civil engineering, shipbuilding, or large items of plant and machinery.

Progressive tax Is An income tax system to where the more income that is made the higher the tax percentage that must be paid.

Project finance Money or loans put up for a particular project (e.g. A property development), which are usually secured on that project rather than forming part of the general borrowing of the company carrying out the development.

Projection Is an approximation of future events. Usually a projection is made by extrapolating known information into the future period, considering events that could affect the outcome.

Promises for the future Is not a standard term, but is sometimes used in contracts to delineate what orders/commitments may exist in the future. Dependent upon the contractual language, it may or may not be binding.

Promissory Note Evidence of a debt with specific amount due and interest rate. The note may specify a maturity date or it may be payable on demand. The promissory note may or may not accompany other instruments such as a mortgage providing security for the payment thereof.

Pronouncements Of the FASB and GASB are rules that determine the principles for external financial reporting and disclosure.

Proper accounting records Accounting records that are sufficient to show and explain an organization's transactions. For a company, the Companies Act requires that these records should be able to disclose with reasonable accuracy, at any time, the financial position of the company and enable the directors to ensure that the balance sheet and profit and loss account comply with the statutory regulations. In particular, the accounting records shall contain entries of all money received and spent and a record of the assets and liabilities of the company. If goods are being bought and sold, stock records must also be sufficient. In forming an audit opinion an auditor performing a statutory audit under the Companies Act will consider whether proper accounting records have been kept and proper returns adequate for audit have been received from branches not visited. Furthermore, the auditor will consider whether the accounts are in agreement with the accounting records and returns.

Property income certificate (PINC) A certificate giving the bearer a share in the value of a particular property and a share of the income from it. PINCs can be bought and sold.

Proportianate unit concept Is where a value or distribution is agreeing in amount, magnitude, or degree, e.g. a shareholder holding 1% outstanding shares of an entity is entitled to receive 1% of that entities declared dividend, i.e. it is in proportion.

Proportional consolidation A method of consolidation used in group accounts in which subsidiaries are not fully owned; a proportionate share of each category of a joint venture's revenue, expenditure, assets, and liabilities is included line by line.

Proposed dividend A dividend that has been recommended by the directors of a company but not yet paid.

Proprietary asset, Usually, is any asset that is considered in the realm of intellectual property that should not be disclosed, e.g., all information having to do with clients/customers, including but not limited to names, addresses, telephone numbers and other contact information, as well as any other personal or business related information, as it may exist from time to time is a valuable, and unique proprietary asset to a company. Proprietary assets would also include trade secrets and undisclosed inventions.

Proprietary Is an account, item, or information belonging to a company or individual.

Proprietary theory Is where no fundamental distinction is drawn between a legal entity and its owners, i.e. the entity does not exist separately from the owners for accounting purposes. The primary focus is to report information useful to the owners, and therefore the financial statements are prepared from their perspective.

Proprietary view The view of an accounting entity in which the enterprise is seen from the shareholders' perspective rather than stressing the importance of the enterprise itself.

Proprietor An owner of property or of a business. The owners of a company are the shareholders of the company.

Proprietors draw Is when a business proprietor draws money for personal needs, but is taxed on business results (at individuals' marginal rate) regardless of drawings.

Proprietors funds Is owner's capital plus net profit minus owners drawings.

Proprietorship Business owned by an individual without the limited liability protection of a corporation or a limited liability company (LLC). Also known as sole proprietorship.

Prospective Financial Information (forecast and projection) Forecast: Prospective financial statements that present, to the best of the responsible party's knowledge and belief, an entity's expected financial position, results of operations, and changes in financial position. A financial forecast is based on the responsible party's assumptions reflecting conditions it expects to exist and the course of action it expects to take. Projection: Prospective financial statements that present, to the best of the responsible party's knowledge and belief, given one or more hypothetical assumptions, an entity's expected financial position, results of operations, and changes in financial position.

Prospective Financial statements are either financial forecasts or financial projections. Prospective financial statements may cover a period that has partially expired. Statements for periods that have completely expired are not prospective financial statements.

Prospective payment system (PPS), In healthcare, is a Medicare administered payment plan where providers are paid a predetermined sum for caring for a given number of consumers. The built in incentive is for providers to control costs, theoretically leading to more cost effective care.

Prospective reimbursement, In healthcare, is a reimbursement method where the third party payer set the amount of money for a particular service to be delivered to clients in agreement with the organization before the service is delivered.

Prospectus Is the disclosure document for an offering registered with the SEC. The final prospectus is issued on the effective date, i.e., when the offering is released by the SEC.

Provision for bad debts A provision calculated to cover the debts during an accounting period that are not expected to be paid. A general provision, e.g. 2% of debtors, is not allowed as a deduction for tax purposes. A specific provision, in which specific debts are identified, is allowed if there is documentary evidence to indicate that these debts are unlikely to be paid. A provision for doubtful debts (or allowance for doubtful accounts) is treated in the same way for tax purposes.

Provision, Generally, is to prepare in advance for an event that is projected to place in the future. In accounting, it is an amount charged against profits for a specific liability (for example: bad debts, depreciation or taxes). A liability may be known, but the amount is often uncertain. This uncertainty may lead to an adjustment in a later income statement once the final amount of the liability is ascertained.

Proximo (Usually abbreviated to 'PROX') Means of or in the following month.

Proxy Document authorizing someone other than the shareholder to exercise the right to vote the stock owned by the shareholder.

Prudence concept, Otherwise known as conservatism, says that whenever there are alternative procedures or values, the accountant will choose the one that results in a lower profit, a lower asset value and a higher liability value.

Prudence Is having foresight and caution along with discretion, and to not act recklessly.

PUBLIC ACCOUNTING Means the performance of or offering to perform any engagement that will result in the issuance of an attest report that is in accordance with professional standards. "Practice of public accounting" also means the performance of or offering to perform services other than those described above, such as consulting services, personal financial planning services, or the preparation of tax returns or the furnishing of advice on tax matters by a sole proprietorship, partnership, limited liability company, professional association, corporation, or other business organization, that advertises to the public as a "certified public accountant" or "public accountant."

Public corporation Is a corporation formed by federal, state or local governments for specific public purposes.

Public issue A method of making a new issue of shares, loan stock, etc., in which the public are invited, through advertisements in the national press, to apply for shares at a price fixed by the company.

Public limited company (PLC) A company registered under the Companies Act (1980) as a public company. Its name must end with the initials 'plc'. It must have an authorized share capital of at least £50,000, of which at least £12,500 must be paid up. The company's memorandum must comply with the format in Table F of the Companies Regulations 1985. It may offer shares and securities to the public. The regulation of such companies is stricter than that of private companies. Most public companies are converted from private companies, under the re-registration procedure in the Companies Act.

Public offering Is the sale of a new securities issue to the public by way of an underwriter, a transaction that must be registered with the Securities and Exchange Commission.

Public Oversight Board (POB) The POB is an independent oversight board, composed of public members, which monitors and evaluates peer reviews conducted by the SEC Practice Section (SECPS) of the AICPA's Division for CPA Firms as well as other activities of the SECPS.

Public ownership Is either: a. Government ownership and operation of a productive facility for the purposes of providing some goods or services to citizens; or, b. In investments, portion of a corporations stock that is publicly traded and owned in the open market.

Publicity costs Items of expenditure incurred in carrying out the publicity function in an organization. Such items might include the publicity manager's salary, the advertising costs, promotions, and point-of-sale material.

Publicly Traded Partnership A partnership whose interests are traded on an established securities market or are readily tradable on a secondary market.

Published accounts The accounts comprise the balance sheet, the profit and loss account, the statement of sources and application of funds, the directors' report, and the auditors' report. In the case of groups of companies, consolidated accounts are also required. Small companies and mediumsized companies, as defined by the Act, need not file some of these documents.

Purchase account Is an account in which all inventory purchases are recorded; used with the periodic inventory method.

Purchase agreement Is a contract stating the terms of a purchase.

Purchase day book (purchases journal) The book of prime entry in which invoice amounts for purchases are entered.

Purchase discount Is a reduction in the purchase price, allowed if payment is made within a specified period.

Purchase method Is accounting for an acquisition using market value for the consolidation of the two entities' net assets on the balance sheet. Generally, depreciation/amortization will increase for this method (due to the creation of goodwill) compared to the POOLING OF INTEREST METHOD resulting in lower net income.

Purchase Method of Accounting Accounting for a merger by adding the acquired company's assets at the price paid for them to the acquiring company's assets.

Purchase money agreement Is an agreement under which a person pledges the property or item bought as security.

Purchase money interest Is that interest associated with the purchase money mortgage.

Purchase money mortgage (PMM) Is seller financing as a part of the purchase price.

Purchase order A document from a buyer to a seller placing an order and listing quantities and specifications.

Purchase order Is a written authorization for a vendor to supply goods or services at a specified price over a specified time period. Acceptance of the purchase order constitutes a purchase contract and is legally binding on all parties.

Purchase requisition A form, completed by a user department of an organization and issued to the purchasing department, requiring the latter to effect the purchase of the items specified in the requisition. The requisition usually includes the quantity and specification of the items required, the possible supplier, the date required, and the delivery point.

Purchase requisition Is a written request for goods to be purchased. It is usually prepared by a department head or manager and sent to a firm's purchasing department.

Purchase returns Is a contra purchase account that records all credits from returned inventory purchases.

Purchased goodwill Goodwill acquired when an entity is purchased as opposed to that which has been internally generated. Positive goodwill arises where the purchase cost exceeds the aggregate fair values of the identifiable assets and liabilities.

Purchases account An account in which records are kept of transactions involving the buying of goods, either on credit or for cash. The double entries involved will be: debit the purchases account with the amount purchased and credit the creditors' account for purchases on credit and the bank account for purchases for cash.

Purchases budget A budget set for the purchasing function of an organization under a system of budgetary control, which plans the volumes and cost of the purchases to be made in a budget period. It will usually provide an analysis of the budgets by material and by accounting period.

Purchases invoice An invoice sent by a supplier to a purchaser, detailing the goods sent, amounts payable, discount applicable, VAT, and any other relevant information. This is entered into the purchase day book of the business buying the goods.

Purchases returns Goods purchased from a supplier but returned to the supplier because they are faulty, are not exactly what was ordered, etc.

Purchasing power The ability to purchase goods and services. In times of inflation a loss of purchasing power occurs when monetary assets are held because of the decline in the purchasing power of the currency. If a company has monetary liabilities, a purchasing power gain will arise because the absolute sum of the loans will be repaid with currency with less purchasing power. **Purchasing power parity theory** The theory that the exchange rate between one currency and another is in equilibrium when their domestic purchasing powers at that rate of exchange are equivalent.

Pure cost Is any direct readily verifiable cost assignable to the subject or item, e.g., the direct cost of producing a product.

Pure research Is motivated exclusively by the search for knowledge for its own sake.

Push-Down Accounting Method of accounting in which the values that arise from an acquisition are transferred or “pushed down” to the accounts of an acquired company.

Push-pull strategy Is the effective simultaneous use of a combination of two marketing strategies**:** PUSH = 1. (physical distribution definition) A manufacturing strategy aimed at other channel members rather than the end consumer. The manufacturer attempts to entice other channel members to carry its product through trade allowances, inventory stocking procedures, pricing policies, etc. 2. (sales promotion definition) The communications and promotional activities by the marketer to persuade wholesale and retail channel members to stock and promote specific products. PULL = 1. (physical distribution definition) A manufacturing strategy aimed at the end consumer of a product. The product is pulled through the channel by consumer demand initiated by promotional efforts, inventory stocking procedures, etc. 2. (sales promotion definition) The communications and promotional activities by the marketer to persuade consumers to request specific products or brands from retail channel members.

Put is (1) A stipulated privilege of buying or selling a stated property, security, or commodity at a given price (strike price) within a specified time (for an American-style option, at any time prior to or on the expiration date). A securities option is a negotiable contract in which the seller (writer), for a certain sum of money called the option premium, gives the buyer the right to demand within a specified time the purchase (call) or sale (put) by the option seller of a specified number of bonds, currency units, index units, or shares of stock at a fixed price or rate called the strike price. Many options are settled for cash equal to the difference between the aggregate spot price and the aggregate strike price rather than by delivery of the underlying. In the U.S. and many other countries, stock options are usually written for units of 100 shares. Other units of underlying coverage are standard in other option markets. Options are ordinarily issued for periods of less than one year, but longer-term options are increasingly common.

(2) Any financial contract that changes in value like an option (asymmetrically), even if the terms of the contract do not state the price relationship in terms of a right or privilege or in other language usually associated with options.

Put option Is the right but not the obligation to sell an underlying at a particular price (strike price) on or before the expiration date of the contract. Alternatively, a short forward position with an upside insurance policy.

Put warrant Is a security that, in contrast to a conventional warrant, gives the holder the right to sell the underlying or to receive a cash payment that increases as the value of the underlying declines. Put warrants, like their call warrant counterparts, generally have an initial term of more than one year.

Puts A put is an option to sell a certain number of shares of stock at a stated price within a certain period. The gain or loss on a put is short or long term depending on the holding period of the stock involved.

Q

Qualified acceptance An acceptance of a bill of exchange that varies the effect of the bill as drawn. If the holder refuses to take a qualified acceptance, the drawer and any endorsers must be notified or they will no longer be liable. If the holder takes a qualified acceptance, all previous signatories who did not assent from liability are released.

Qualified audit report An audit report in which some qualification of the financial statements is required because the auditor feels there is a limitation on the scope of the audit examination or because the auditor disagrees with the treatment or disclosure of a matter in the financial statements. The type of qualification used will depend upon the degree of materiality of the limitation or disagreement. If the limitation of scope is very material, a disclaimer of opinion will be issued; if it is less material the 'except for the limitation of scope' form of qualification will be issued in the report. If the auditor disagrees with the accounting treatment or disclosure in the financial statements and feels the effect is material and potentially misleading, an adverse opinion will be expressed. If the disagreement is not so material, a qualified opinion will be given using the except for the effects of the disagreement' form of qualification.

Qualified domestic relations order (QDRO) Is when a state court allocates an interest in a qualified retirement plan to a former spouse through a qualified domestic relations order. Payments made to a former spouse as the result of a QDRO will not result in the taxpayer being assessed a penalty for early withdrawal from the plan; the former spouse will be taxed on the benefits when received, or the benefits can be rolled over tax free.

Qualified Opinion Audit opinion that states, except for the effect of a matter to which a qualification relates, the Financial statements are fairly presented in accordance with Generally accepted accounting principles (GAAP). The AUDITOR is required to qualify when there is a scope limitation.

Qualified stock option In the USA, an agreement giving employees the right to purchase company stock at a later date at a specified option price, which is normally lower than the market price.

Qualified Terminable Interest Property (QTIP) Property that qualifies for the marital deduction provided the property passes from a decedent to a surviving spouse, the surviving spouse has a qualified income interest for life in the property and the executor of the decedent's estate makes an irrevocable election to qualify the QTIP property for the marital deduction.

Qualifying distribution A distribution from a company prior to 6 April 1999 resulting in advance corporation tax being paid; examples include:

Dividends,

Distributions from any company assets to shareholders (except for capital repayments), issues of redeemable preference shares,

Bonus issues of shares followed by a repayment of share capital.

Qualifying loss A trading loss arising in a current accounting period as a result of computing the profits and losses of an organization in accordance with accepted corporation-tax principles.

Qualitative characteristics of accounting information The characteristics that make information in financial reports as useful as possible. The Financial Accounting Standards Board, in its Statement of Financial Accounting Concepts No. 2, identifies the qualities that are both useful to decision makers and make the documents understandable. Information must be both reliable and relevant; it must have predictive value, feedback value, timeliness, comparability, consistency, verifiability, neutrality, and representational faithfulness. The Accounting Standards Board, in its Statement of Principles, identifies similar qualities, although there are some differences in the relationships and importance of these qualities.

QUALITATIVE INFORMATION Is information that is descriptive in nature, relating to, or involving quality or kind.

Qualitative Relating to the quality of a trait, as opposed to quantitative, which means expressed as a number.

Quality Control systems provide a CPA firm with reasonable assurance that personnel comply with professional standards and the firm's standards of quality, independence, integrity, and objectivity. It covers personnel management, acceptance and continuance of clients, engagement performance, and monitoring.

Quality of earnings Is the increased earnings due to increased sales and cost controls, as compared to artificial profits created by inflation of inventory or other asset prices.

Quango Acronym for quasi-autonomous non-governmental organization. Such bodies, some members of which are likely to be civil servants and some not, are appointed by a minister to perform some public function at the public expense. While not actually government agencies, they are not independent and are usually answerable to a government minister.

Quantative information Is information relating to, or expressible in, terms of quantity.

Quantitative (quantitatively) Expressed as a number, as opposed to qualitative measurement.

Quantitative budgets Budgets that cover the non-financial aspects of budgetary control, such as the number of units of product planned to be produced and the number of direct labour hours to be worked.

Quasi-contract A legally binding obligation that one party has to another, as determined by a court, although no formal contract exists between them.

Quasi-loan An arrangement in which a creditor agrees to meet some of the financial obligations of a borrower, on condition that the borrower reimburses the creditor.

Quasi-Reorganization Type of reorganization in which, with shareholder approval, the management revalues assets and eliminates the deficit (increased by asset devaluations if any) by charging it to other equity accounts without the creation of a new corporate entity or without court intervention.

Quasi-subsidiary A company, trust, partnership, or other arrangement that does not fulfil the definition of a subsidiary undertaking but is directly or indirectly controlled by the reporting entity and gives rise to benefits for that entity that are in substance no different from those that would arise if it was a subsidiary. This definition is based on that given in Financial Reporting Standard 5, Reporting on the Substance of Transactions. If a reporting entity has a quasi-subsidiary, the substance of the transactions entered into by the quasi-subsidiary should be reported in consolidated financial statements.

Questionnaire An internal control questionnaire is a list of questions about the internal control system to be answered (with answers such as yes, no, or not applicable) during audit fieldwork. The questionnaire is part of the audit documentation of the auditor's understanding of the client's internal controls.

Quick assets Is current assets minus inventories.

Quick ratio (Or Acid Test Ratio) Is a more rigorous test than the Current Ratio of short-run solvency, the current ability of a firm to pay its current debts as they come due. This ratio considers *only* cash, marketable securities (cash equivalents) and accounts receivable because they are considered to be the most liquid forms of current assets. A Quick Ratio less than 1.0 implies "dependency" on inventory and other current assets to liquidate short-term debt.

Quick-succession relief Relief available when property is assessed for inheritance-tax purposes in the estates of two separate individuals, if the death of the second individual occurs within 5 years of the first. For example, B inherits property from A, which was subject to inheritance tax on A's death of £X. If B dies within one year of the date of the gift, the inheritance tax, £X, that was paid on A's estate will be allowed in full against the inheritance-tax liability on B's estate. If B dies within 1-2 years after the date of A's death the relief is 80% of £X, within 2-3 years relief is 60% of £X, within 3-4 years relief is 40% of £X, and within 4-5 years relief is 20% of £X. The relief is deducted from the whole estate, not simply a particular part of it.

Quote to cash Covers the business process for creating a quote for a prospect or customer, order management, invoicing and cash receipt. The functionality is highly integrated with Supply Chain Management and Customer Management. In traditional systems, it is funded in modules like order entry and accounts receivable.

Quoted company A company listed on a stock exchange.

R

Rabbi trust Is a nonqualified deferred compensation plan whereby an employer and employee agree to defer payment for the employee's services until a specified future date. The rabbi trust features an irrevocable grantor trust that is set up by the employer to hold the contributions set aside for the employee. While this provides the employee some degree of safety that the money will be available when desired, the terms of the trust must be such that exposes the trust assets to the claims of the employer's creditors.

Raft *Abbreviation for* revolving acceptance facility by tender.

Random sample (random-number sampling) Identical probability of each population item being selected for a sample. Also, the use of random numbers to select a random sample from a population.

Random selection Is a probability-based selection protocol in which each unit has a known probability of being selected. The chances of selection need not be equal for each unit, as long as the chances are known for each unit.

Random-walk theory The theory that share prices move, for whatever reason, without any memory of past movements and that the movements therefore follow no pattern. This theory is used to refute the predictions of chartists, who do rely on past patterns of movements to predict present and future prices.

Ratchet effect An irreversible change to an economic variable, such as prices, wages, exchange rates, etc. For example, once a price or wage has been forced up by some temporary economic pressure, it is unlikely to fall back when the pressure is reduced. This rise may be reflected in parallel sympathetic rises throughout the economy, thus fuelling inflation.

Rate of return Is the gain or loss for a security in a particular period, consisting of income plus capital gains relative to investment, usually quoted as a percentage. The real rate of return is the annual return realized on that investment, adjusted for changes in the price due to inflation.

Rate of Return on Assets In real estate parlance, the net operating income from a property divided by the price of the property.

Rate of return pricing Setting the prices of a range of products so that they earn a predetermined required rate of return or return on capital employed.

Rate of turnover The frequency, expressed in annual terms, with which some part of the assets of an organization is turned over. The total sales revenue is often referred to as turnover and in order to see how frequently stock is turned over, the sales revenue (or if a more accurate estimate is needed the cost of goods sold) is divided by the average value of the stock to give the number of times the stock is turned over. This provides a reasonable measure in terms of stock. However, some accountants divide the sales figure by the value of the fixed assets to arrive at turnover of fixed assets. This is less realistic, although it does express the relationship of sales to the fixed assets of the organization, which in some organizations could be significant.

Rate per direct labour hour A basis used in absorption costing for absorbing the manufacturing overhead into the cost units produced. The formula is: • budgeted manufacturing overhead/budgeted direct labour hours.

Rate per machine hour A basis used in absorption costing for absorbing the manufacturing overhead into the cost units produced. The formula is: • budgeted manufacturing overhead/ budgeted machine hours.

Rate per standard hour A basis used in absorption costing for absorbing the manufacturing overhead into the cost units produced. The formula is: budgeted manufacturing overhead/ budgeted standard hours.

Rate per unit A basis used in absorption costing for absorbing the manufacturing overhead into the cost units produced. The formula is:

Budgeted manufacturing overhead/budgeted units.

Rating agency An organization that monitors the credit backing of bond issues and other forms of public borrowings. The two best known are Standard & Poor and Moody, both of which have been in existence for over 100 years.

Ratio analysis Involves conversion of financial numbers for a firm into ratios. Ratio analysis allows comparison of one firm to another. Since ratios look at relationships inside the firm, a firm of one size can be directly compared to a second firm (or a collection of firms) which may be larger or smaller or even in a different business. Financial Ratio Analysis is a method of comparison not dependent on the size of either firm. Financial Ratios provide a broader basis for comparison than do raw numbers. In the VentureLine database the comparison is conducted against the industry (SIC Code) in which each particular listing is associated.

Ratio covenant A form of covenant in a loan agreement that includes conditions relating to such ratios as the gearing ratio and interest cover. Breaching such a covenant could indicate significant deterioration in the company's business or a major change in its nature; this will usually empower the lender to request repayment of any of the loan then outstanding, and the loan then becomes null and void.

Ratio estimation In audit sampling a ratio of the proportion of errors in the sample applied to the population value to estimate total error.

Ratio Is the relative size, expressed as the number of times one quantity is contained in another (for example, the ratio of assets to liabilities of a company having total assets of $200,000 and liabilities of $150,000 would be $200,000 divided by $150,000 = 1.33).

Reach, In advertising, is the total number of people within a target market that will be reached through an advertising campaign.

Real account A ledger account for some types of property (e.g. land and buildings, plant, investments, stock) to distinguish it from a nominal account, which would be for revenue or expense items (e.g. sales, motor expenses, discount received, etc.). This distinction is now largely obsolete and both sets of accounts are maintained in the same ledger, usually referred to as the nominal ledger.

Real estate In the USA, land, land improvements, and buildings held for business use in the generation of income.

Real Estate Investment Trust (REIT) Investor-owned trust which invests in real estate and, instead of paying income tax on its income, reports to each of its owners his or her pro rata share of its income for inclusion on their income tax returns. This unique trust arrangement is specifically provided for in the internal revenue code.

Real Estate Mortgage Investment Conduit (REMIC) An entity that holds a fixed pool of mortgages and issues multiple classes of interest s in itself to investors. A qualified Remic is generally taxed like a partnership, unless it takes contributions after its start up day or engages in a prohibited transaction.

Real property Is land and / or any permanent structures attached to it; to include saleable natural resources, e.g., vacant land, buildings, farms, oil, gas, timber, etc.

Real rate of interest The rate of interest charged for the use of financial resources adjusted for the effect of the inflation rate within an economy. For example, if the rate charged for borrowed funds is 12% and the inflation rate is 5% per annum, the real rate of interest is about 7%.

Real terms A representation of the value of a good or service in terms of money, taking into account fluctuations in the price level. Economists are usually interested in the relationship between the prices of goods in real terms, i.e. By adjusting prices according to a price index or some other measure of inflation.

Real terms accounting A system of accounting in which the effects of changing prices are measured by their effect on a company's financial capital (i.e. shareholders' funds) to. Assets are measured at current cost. Profit is defined as any surplus remaining after the shareholders' funds (determined by reference to the current cost of net assets) have been maintained in real terms. The unit of measurement may be either the nominal pound or the unit of constant purchasing power.

REAL, dependent upon usage, means either

1. in economics, refers to measures such as cost, price and income, which are corrected for inflation over time in order to permit a comparison of actual purchasing power; or,
2. actual cost, as opposed to nominal.

Realizable account An account drawn up on the dissolution of a partnership. The account is debited with the assets of the partnership and any expenses on realization; it is credited with the proceeds of any sales made. The difference between the total debits and credits is either a profit or loss on realization and must be shared between the partners in the profit-sharing ratio.

Realization convention The general basis used in financial statements prepared under historical cost accounting in which increases or decreases in the market values of assets and liabilities are not recognized as gains or losses until the assets are sold or the liabilities paid.

Realization principle Is that revenue should be recognized at the time goods is sold and services are rendered.

Realized gain/loss, In securities, is a capital gain or loss on securities held in a portfolio that has become actual by the sale or other type of surrender of one or many securities.

Realized net income, In relation to a particular investment, is the amount by which the total cash gains from an investment exceeds the total losses from the investment. The Realized Net Income from any investment cannot be less than zero.

Realized profit (or **loss)** A profit (or loss) that has arisen from a completed transaction (usually the sale of goods or services or other assets). In accounting terms, a profit is normally regarded as having been realized when an asset has been legally disposed of and not when the cash is received, since if an asset is sold on credit the asset being disposed of is exchanged for another asset, a debtor. The debt may or may not prove good but that is regarded as a separate transaction.

Real-time processing The processing of data by a computer as soon as it is input so that the results can be output almost immediately.

Reasonable Assurance Management's assessment of the effectiveness of internal control over financial reporting is expressed at the level of reasonable assurance. It includes the understanding that there is a remote likelihood that material misstatements will not be prevented or detected on a timely basis. It is a high level of assurance.

Reasonable certainty Is the degree of certainty that would be found to be in existence by a reasonable person.

Reasonable person Is a phrase to denote a hypothetical person who exercises qualities of attention, knowledge, intelligence, and judgment that society requires of its members for the protection of their interest and the interest of others.

Reasonableness test Is where the expected value is determined by reference to data partly or wholly independent of the accounting information system, and for that reason, evidence obtained through the application of such a test may be more reliable than evidence gathered using other analytical procedures.

Reaudit When an auditor is asked to audit and report on financial statements that have been previously audited and reported on.

Rebate Is a. payment to a customer upon completion of a purchase as an inducement or sales promotion tactic; b. unearned interest refunded to borrower if the loan is paid off prior to maturity; c. amount paid back or credit allowed because of an over-collection or the return of an object sold (i.e., a refund).

Recalculate Perform procedures again and compare to original results.

Recapitalization: It is dependent upon how you use the term. The term recapitalization in itself is, dependent upon the scenario, simply an adjustment of the relationships between the debt and equity that funds a firms assets. However, it can become quite complex dependent upon under what conditions or reasons the firm is being recapitalized. This is specially true if recapitalization is being pursued to ward off a hostile takeover.

Recast earnings Is a recalculation of earnings based on the assumption that certain expenses could be eliminated through new forms of cost savings. Recast earnings are often used in the analysis of a takeover or merger.

Receipt Is a written acknowledgment that a specified article, sum of money, or shipment of merchandise has been received.

Receipts and payments basis The basis of accounting in which accounts are prepared on a cash basis, i.e. when amounts are actually received or paid, as opposed to the accruals concept.

Receipts This term, unless otherwise qualified, in accounting means cash received.

Receivable Is an amount awaiting receipt of payment.

Receivables Claims held against customers and others for money, goods, or services. These will appear on the balance sheet of a company.

Receiver Is a court appointed person who takes possession of, but not title to, the assets and affairs of a business or estate that is in a form of bankruptcy called RECEIVERSHIP. The receiver collects rents and other income and generally manages the affairs of the entity until a disposition is made by the court.

Receivership Is equitable remedy whereby a court orders property placed under the control of a RECEIVER so that it may be preserved for the benefit of affected parties. A failing company may be placed in receivership in an action brought by its creditors. The business is often continued but is subject to the receiver's control.

Receiving report A document completed in the receiving department, which identifies the purchase order that initiated the purchase, and the date, quantity, and condition of goods received.

Recharacterization Rules Generally, rules which reclassify passive income as nonpassive. This type of income should not be reported on Form 8582 and cannot be offset by passive activity losses except those passive losses remaining after disposition of a passive activity.

Reciprocal costs Costs apportioned from a service cost centre to a production cost centre that carries out work for the original service cost centre. Consequently, a proportion of the production cost centre costs should also be re-apportioned to the service cost centre. Cost apportionment can be calculated either by the use of simultaneous equations or by a continuous apportionment method, until all the costs are charged to the production cost centre.

Reciprocal investment Is primarily a protection measure between states (governments) that ensures that investment between two or more states is balanced.

Recognition The process of incorporating an accounting item into the financial statements of an organization. Not only is the process essential for revenue and expenditure items, but it has became increasingly important in the proper treatment of off balance sheet finance.

Recognized professional body (RPB) A professional body recognized by the Securities and Investment Board as being able to authorize its members to carry out investment business when it does not form part of their main activity.

Recomputation Perform procedures again and compare to original results.

Reconciliation Is the adjusting of the difference between two items (e.g., balances, amounts, statements, or accounts) so that the figures are in agreement. Often the reasons for the differences must be explained. One example would be reconciling a checking account (bringing the checking ledger and bank balance statement into agreement).

Reconciliation of movements in shareholders' funds A financial statement bringing together the performance of an organization in a financial period, as shown in the statement of total recognized gains and losses, with all other changes in shareholders' equity in the period, including capital contributed by or repaid to shareholders. This statement is provided for in Financial Reporting Standard 3, Reporting Financial Performance.

Recourse note Is a note where the default may result in loss of collateral and also personal suit and judgment. Most notes are recourse notes.

Recourse, In finance, is the right to demand payment from the maker or endorser of a negotiable instrument (as a check).

Recoverable advance corporation tax Advance corporation tax that has been paid and can be set off in full against the current year's gross corporation tax liability or set back against gross corporation tax for accounting periods beginning six years preceding the current accounting period.

Recoverable amount The value of an asset treated as the greater of its net realizable value and its value in use.

Recovery, In finance, a. absorption of cost through the allocation of depreciation; b. residual cost or salvage value of a fixed asset after all allowable depreciation; or, c. collection of an accounts receivable that had been previously been written off as a bad debt.

Rectification note A form issued to the production department of an organization requiring a piece of work to be reworked or rectified. The form includes a specification of the work to be done, the number of units, the processes involved, and the date required.

Recurring entry Is a scheduled accounting entry that occurs consistently as to date and amount, e.g. a monthly lease payment.

Red herring Is a preliminary registration statement describing the issue (the IPO) and prospects of the company that must be filed with the SEC or provincial securities commission. There is no price or issue size stated in the red herring. Red Herring's are sometimes updated several times before it is called the final prospectus. It is known as a red herring because it contains a statement typed in red that the company is not attempting to sell their shares before the registration is approved by the SEC.

Redeemable shares Shares (either ordinary shares or preference shares) in a company that the issuing company has the right to redeem, under terms specified on issue. Redemption may be funded from distributable profits or from a fresh issue of shares. If the shares were issued at a premium and are to be redeemed at a premium and subject to a maximum amount, the premium may be funded from the share premium account. If redemption reduces the total capital of the company, i.e. no fresh issue is made or the proceeds of the fresh issue do not fully replace the nominal value of the shares redeemed, a capital redemption reserve will need to be credited, to ensure that the creditors' buffer is maintained.

Redemption Is the repayment of the principal amount of a debt or security at or before maturity (as when a corporation repurchases its own stock).

Redemption premium An addition to the par value of a bond issued with a call option, if the issuer exercises the option.

Redemption Value Price to be paid by an entity to retire its bonds or preferred stock.

Reduction of capital A reduction in the issued share capital of a company. The Companies Act states that, subject to confirmation by the court, a company may, if authorized by its articles of association, pass a special resolution to reduce its issued share capital. It may

(a) cancel any paid-up capital that is lost or no longer represented by available assets,

(b) extinguish or reduce the liability on any of its shares in respect of share capital not paid up,

(c) pay off any paid-up share capital that is in excess of its warrants.

Red-wells Are when legal records are set up in file folders and file pockets called "red-wells." Clients usually have several matters. Red-wells are usually four-inch filing media in which file folders are inserted. A legal file may have several standard components called "sub-files." These sub-files are normally inserted into red-wells.

Refer to drawer Words written on a cheque that is being dishonoured by a bank, usually because the account of the person who drew it has insufficient funds to cover it and the manager of the bank is unwilling to allow the account to be overdrawn or further overdrawn. Other reasons for referring to the drawer are that the drawer has been made bankrupt, that there is a garnishee order against the drawer, that the drawer has stopped it, or that something in the cheque itself is incorrect (e.g. it is wrongly dated, words and figures don't agree, etc.). The words 'please re-present' may often be added, indicating that the bank may honour the cheque at a second attempt.

Reference bank A bank nominated under the terms of a loan agreement to provide the marker rates for the purposes of fixing interest charges on a variable-rate loan.

Referendum Is when a legislative act is referred for final approval to a popular vote by the electorate, e.g., a bond referendum.

Refinancing Agreement Arrangement to provide funding to replace existing financing, the most common being a refinance of a home mortgage.

Reflation Is, upon recovering from a depression or a recession, the period during which prices are returned to the level they had attained during a period of prosperity by lowering the purchasing power of money is known as reflation.

Reformation The act of changing the terms of a contract to meet the original intentions of the parties.

Refunding Is redeeming a bond with proceeds received from issuing lower-cost debt obligations with ranking equal to or superior to the debt to be redeemed.

Refurbish Is to renovate or clean up.

Register of charges 1. The register maintained by the Registrar of Companies on which certain charges must be registered by companies. A charge is created when a company gives a creditor the right to recover a debt from specific assets. The types of charge that must be registered in this way, and the details that must be given, are set out in the Companies Act (1985). Failure to register the charge within 21 days of its creation renders it void, so that it cannot be enforced against a liquidator or creditor of the company. The underlying debt remains valid, however, but ranks only as an unsecured debt. 2. A list of charges that a company must maintain at its registered address or principal place of business. Failure to do so may render the directors and company officers liable to a fine. This register must be available for inspection by other persons during normal business hours.

Register of debenture-holders A list of the holders of debentures in a company. There is no legal requirement for such a register to be kept but if one exists it must be kept at the company's registered office or at a place notified to the Registrar of Companies. It must be available for inspection, to debenture-holders and shareholders free of charge and to the public for a small fee.

Register of directors and secretaries A statutory book in which a company must list the names, addresses, nationalities, dates of birth, other directorships, and business occupations of all its directors and the secretary or secretaries of the company.

Register of directors' interests A statutory book in which a company must detail the interests of its directors in the shares and debentures of the company. The register must be available for inspection during the annual general meeting of the company.

Register of interests in shares A statutory book required to be maintained by public companies. Interests in shares disclosed to the company by those persons knowingly interested in 3% or more of any class of the voting share capital must be disclosed in the register. Investments held by a spouse, children under 18 years, and corporate bodies over which the person has control are added to the person's own interests.

Register of members (share register) A list of the members of a company, which all companies must keep at their registered office or where the register is made up, provided that this address is notified to the Registrar of Companies. It contains the names and addresses of the members, the dates on which they were registered as members, and the dates on which any ceased to be members. If the company has a share capital, the register must state the number and class of the shares held by each member and the amount paid for the shares. As legal, rather than beneficial, ownership is registered, it is not always possible to discover from the register who controls the shares. The register must be available for inspection by members free of charge for at least two normal office hours per working day. Others may inspect it on payment of a small fee. The register may be rectified by the court if it is incorrect.

Register, In accounting, is a formal or official recording of items within a book or register, e.g., Fixed Asset Register or Invoice Register.

Registered auditor An auditor approved by the authorities of the European Union to carry out statutory audits, in accordance with the European Community 8th Directive. This was brought into UK legislation by the Companies Act (1989). Under this legislation, recognized supervisory bodies were given the authority for approval. Registers of individuals and firms eligible to act as registered auditors have been set up.

Registered bonds Are bonds for which the names and addresses of the bondholders are kept on file by the issuing company.

Registered book-keeper A member of the International Association of Book-keepers.

Registered investment advisor is an investment advisor registered with the SEC. No certification is required.

Registered office The official address of a company, to which all correspondence can be sent. Any change must be notified to the Registrar of Companies within 14 days and published. Statutory registers are kept at the registered office, the address of which must be disclosed on stationery and in the company's annual return.

Registered trader A taxable person who has complied with the registration for value added tax regulations.

Registration for value added tax An obligation on a person making taxable supplies to register for value added tax if at the end of any month the amount of taxable supplies in the period of 12 months ending in that month exceeds the registration threshold.

Registration rights Is the right to require that a company register restricted shares. Demand Registered Rights enable the shareholder to request registration at any time, while Piggy Back Registration Rights enable the shareholder to request that the company register his or her shares when the company files a registration statement (for a public offering with the SEC).

Registration statement A statement submitted to officially provide the SEC with information about an offering of securities. A registration statement includes audited financial statements (balance sheet, income statement, and statement of cash flows) for the previous three years.

Registration statement In the USA, a lengthy document that has to be lodged with the Securities and Exchange Commission. It contains all the information relevant to a new securities issue that will enable an investor to make an informed decision whether or not to purchase the security.

Regression analysis A statistical method for finding the relationship between two or more variables. Also called least squares or linear regression.

Regulation S-x is a regulation of the SEC that explains the format of information to be submitted to the SEC. It is entitled "Form and Content of and Requirements for Financial Statements, Securities Act of 1933, Securities Exchange Act of 1934, Public Utility Holding Company Act of 1935, Investment Company Act of 1940, and Energy Policy and Conservation Act of 1975."

Regressive tax Is a tax system to where the more income that is realized the lower the tax rate becomes.

Regulated Investment Company (RIC) Commonly called a mutual fund, this is a domestic corporation that acts as an investment agent for its shareholders by typically investing in government and corporate securities and distributing the dividends and interest income earned from such investments. In order to be considered a RIC a corporation must make an irrevocable election tax election in order to be treated as one.

Regulation A, In the USA, is a regulation under the Securities Act of 1933 providing for a simplified form of filing with the SEC, used for certain public offerings of not more than $5,000,000 and exempting such offerings from full registration.

Regulation D, In The USA, is a regulation under the Securities Act of 1933 which exempts limited offers and sales of securities from registration if the offering satisfies certain requirements as to the number and nature of investors and the value of the offering. Advertising and resale are restricted. In general, Rule 504 of Reg D is used for offerings of $1 million or less; Rule 505 of

Reg D is used for offerings of $5 million or less, with no more than 35 purchasers who are not Accredited Investors; and Rule 506 of Reg D is used for offerings over $5 million, with no more than 35 purchasers who are not Accredited Investors, but who must be either sophisticated or represented by a Purchaser Representative.

Regulation S, In The USA, is a regulation under the Securities Act of 1933 which exempts from registration certain offers and sales of securities made outside of the United States by USA or foreign issuers.

Reimbursement Is to pay back to someone, e.g. to pay an employee for travel expenses that was paid by the employee out of that employees own personal funds.

Reinsurance Process by which an insurance company obtains insurance on its insurance claims with other insurers in order to spread the risk.

Reinvestment rate The interest rate at which an investor is able to reinvest income earned on an existing investment.

Related Parties are those with whom the client has a relationship that might destroy the self-interest of one of the parties (accounting is based on measurement of arm's length transactions). Related parties include affiliates of the client, principle owners, management (decision makers who control business policy) and members of their immediate families.

Related parties Under Financial Reporting Standard 8, two or more parties are considered to be related parties when at any time during the relevant financial period: one party has direct or indirect control of the other party; the parties are under common control from the same source; one party has influence over the financial and operating policies of the other party to the extent that the other party might be inhibited from pursuing its own separate interest at all times, or the parties in entering a transaction are subject to influence from the same source to such an extent that one of the parties to the transaction has subordinated its own separate interests.

Related Party Transaction Business or other transaction between persons who do not have an arm's-length relationship (e.g., a relationship with independent, competing interests). The most common is between family members or controlled entities. For tax purposes, these types of transactions are generally subject to a greater level of scrutiny.

Relationship banking The establishment of a long-term relationship between a bank and its corporate customers, often in the form of a bilateral bank agreement. The main advantage is that it enables the bank to develop in-depth knowledge of a company's business, which improves its ability to make informed decisions regarding loans to the company. The company expects to benefit by increased support during difficult times.

Relative change Is a value that is properly related in size or degree or other measurable characteristics, e.g. cost of goods enjoyed a relative change of 9% as compared to prior period performance.

Release Price The amount that must be repaid on a development loan when a property under a blanket mortgage is sold.

Relevance concept Refers to the capacity of accounting information to make a difference to the external decision makers who use financial reports.

Relevance The principle in decision making that the impact of a particular decision on the performance of an organization can only be determined by identifying those elements of cost or revenue that are relevant to the decisions made.

Relevant accounts The accounts that should be used to determine the amount of distributable profit of a company. These accounts are the most recent audited annual accounts of the company, prepared in compliance with the Companies Act. If the accounts are qualified by the auditors, the auditors must state in their report whether they consider that the proposed distribution would contravene the Companies Act.

Relevant Assertions Assertions that have a meaningful bearing on whether the account is fairly stated.

Relevant cost, In managerial accounting decision-making situations, is any negative-implications phenomenon which is consequent upon the production process, whether it is denominated in money terms or not.

Relevant income (relevant revenue) An item of revenue that changes as a result of a proposed decision. An item of revenue that remains unchanged as the result of a particular decision is irrelevant to that decision.

Relevant information Information that is able to influence an economic decision likely to be made by the user of that information. To be relevant, information must have the qualitative characteristics of timeliness and must either have predictive value or act as confirmation or correction of earlier expectations.

Relevant range The range of levels of activity between which valid conclusions can be drawn from the linear cost functions normally associated with a breakeven analysis. Outside this range it is recognized that the linear relationships between fixed costs, variable costs, and revenue do not apply.

Reliability concept Is a quality of information that assures decision makers that the information represented in the financial records and financial statements captures the actual conditions and events of the reported entity.

Reliability The verifiability, neutrality, and representational faithfulness of accounting information as defined by the Financial Accounting Standards Board's Statement of Financial Accounting Concepts No. 2. The Accounting Standards Board's Statement of Principles considers that reliable information has the qualitative characteristics of faithful representation, substance, neutrality, prudence, and completeness.

Reliable (reliability) Different audit evidence provides different degrees of assurance to the auditor. When evidence can be obtained from independent sources outside an entity, it provides greater assurance of reliability for an independent audit than that secured solely in the entity. More effective internal controls provide more assurance about reliability of the accounting data and financial statements. The independent auditor's direct personal knowledge, from physical examination, observation, computation, and inspection, is more persuasive than information obtained indirectly.

Remainderman The recipient of the remainder (residue) of an estate after the expenses, specific legacies, and inheritance tax have been paid.

Remittance Sending money to someone at a distance. A remittance advice is a paper record of the amount sent, purpose of the payment, and associated account identification.

Remitting bank Is a bank that sends a draft to the overseas bank for collection.

Remote A contingency with only a slight chance of occurring. In computer processing of information, a distant computer.

Remote job entry The entry of data into a computer system when the inputting device is physically remote from the actual computer.

Remote terminal A computer terminal connected to a physically remote computer.

Remuneration committee The Greenbury Report recommended that companies should establish a remuneration committee of non-executive directors to determine the company's policy on the remuneration of executive directors and the specific remuneration package for each director.

Remuneration Is the act of paying for goods or services or to recompense for losses (Example: Receiving remuneration for work, i.e., a paycheck).

Renewable and Convertible Term Term life insurance that is both renewable for an additional period without evidence of insurability and convertible into a permanent or whole life policy. A policy may contain one or both clauses.

Renewal note Is a note that renews a previous note due date.

Renewal notice An invitation from an insurer to continue an insurance policy that is about to expire by paying the renewal premium. The renewal premium is shown on the notice; it may differ from the previous premium, either because insurance rates have changed or because the insured value has changed. Many insurers increase the insured value of certain objects automatically, in line with inflation.

Rent A payment made for the use of land or property usually, but not necessarily, based on a lease.

Rent expired Is based upon prepaid rent and the amount of time that has elapsed that is covered under the prepaid term of the rental.

Rent-a-room A tax relief for individuals who receive payment for letting furnished accommodation in their only or main residence. Income of up to £4250 is exempt from tax.

REO An abbreviation for real estate owned. Used to identify properties that have been foreclosed on and carried on the balance sheet of a lender.

Reorder level The number of units of a particular item of stock to which the balance can fall before an order for replenishment is placed. A reorder-level system is a stock-control system based on the principle that orders for the replenishment of items of stock are only placed when the balance of stock for a particular item falls to a predetermined level. The reorder quantity is the quantity ordered to replenish stock when the stock level falls to the reorder level.

Reorganization costs The costs of restructuring a business. Financial Reporting Standard 3, Reporting Financial Performance, requires that reorganization costs, if they have a material effect on the nature and focus of a reporting entity's operations, should be shown separately as an exceptional item on the face of the profit and loss account after operating profit and before interest, under continuing operations or discontinued operations as appropriate.

Reorganization This is a change in the businesses capital arrangements. If for a corporation there are seven statutory options for reorganization that would cause the corporation and shareholders to not recognize any gain or loss on the exchange of stock.

Repackaged perpetual debt Perpetual debt that carries a high rate of interest for a number of years and then bears no further interest (or only a nominal amount). The value of the debt is therefore negligible and the issuer will normally transfer it to a friendly third party so that it can be redeemed for a token amount.

Repairs and maintenance The revenue expenditure incurred in maintaining the assets of an organization in their original condition (as far as this is possible). Any expenditure incurred in improving the assets would normally be regarded as capital expenditure and therefore not repairs and maintenance.

Repairs Expenditures made in order to keep property in good condition but that do not appreciably prolong the life or increase the value of the property.

Repayment claim A claim made by a taxpayer for repayment of tax overpaid in the fiscal year. This can occur if basic rate tax is deducted at source from all or most of the taxpayer's income without any relief for personal allowances.

Reperformance The repeating by the auditor of a computation made by the client to check its accuracy.

Replacement cost Is the total cost at current prices of an asset that is not necessarily an exact duplicate of the subject asset but serves the same purpose or function as the original.

Replacement reserve fund,Iin real estate, is a fund set aside for replacement of common property in a condominium, PUD, or cooperative project; particularly that which has a short life expectancy, such as carpeting and furniture.

Replacement value concept, In insurance, is loss coverage for assets at the cost required to purchase like assets at market value. The replacement value concept eliminates the often troublesome factor of used or depreciated value when claims for losses are adjusted.

Replacement value Is a valuation similar to an adjusted book value analysis. Replacement value is different than liquidation value in that is uses the value of the replacement value of assets, which is usually higher than book value. Liabilities are deducted from the replacement value of the assets to determine the replacement value of the business.

Replacements Expenditures for making good or whole the portions of property that have deteriorated through use or have been destroyed through accident.

Repo Is a contract under which the seller of securities, such as Treasury Bills, agrees to buy them back at a specified time and price. Also called repurchase agreement or buyback.

Report Release Date The date the company's financial statements are issued.

Reportable condition Is a matter coming to the auditor's attention relating to SIGNIFICANT DEFICIENCIES in the design or operation of the entity's internal control that could ADVERSLY AFFECT an entity's ability to fulfill future obligations with customers and/or the satisfaction of liabilities.

Reportable segment Is a business segment or geographical segment for which IAS 14 requires segment information to be reported.

Reporting accountants A firm of accountants who report on the financial information provided in a prospectus. They may or may not be the company's own auditors. It is usual for reporting accountants to have had previous experience of new issues and the preparation of prospectuses.

Reporting currency The currency used by an organization in its financial statements.

Reporting entity Is the legal entity for which financial reports are prepared and made available.

Reporting Forms Commercial property insurance where the insurer requires periodic reports on the value of the inventory to ensure coverage is adequate and the premiums commensurate with the risk.

Reporting partner The partner in a firm of auditors who forms an audit opinion on the financial statements of a client company and signs and dates the audit report after the financial statements have been formally approved by the directors of the company.

Representation A letter from management to the auditor representing that the financial statements are fairly presented. The letter is addressed to the independent auditor, and dated at the date of the auditor's report. It is signed by members of management whom the auditor believes are responsible for, and knowledgeable about, matters covered (chief executive officer and chief financial officer).

Representation and warranty A clause in a loan agreement in which the borrower gives a contractual undertaking confirming certain fundamental facts. These will include the borrower's power to borrow and to give guarantees, as well as confirmation that it is not involved in any major litigation.

Representation expenses Are those expenditures whose character and primary purpose is for representational or entertainment related activities, including receptions or banquets.

Representative member The company within a group of companies that must account for the output tax and input tax for value added tax of all the companies in the group and be responsible for the quarterly VAT return for the group. All the companies within the group have joint and several liability for any VAT due.

Reproduction cost less depreciation (RCLD) Is a technique for valuing electric distribution assets.

Reproduction Cost The cost of reproducing the improvements on a property so as to duplicate the original property.

Repurchase Agreement (Repos) Agreement whereby an institution purchases securities under a stipulation that the seller will repurchase the securities within a certain time period at a certain price.

Repurchase of own debt The buying back by a company of its own debt at an amount different from the amount of the liability shown in the balance sheet. Urgent Issues Task Force, Abstract 8, states that any difference on repurchase should be taken to the profit and loss account, except in specified exceptional circumstances.

Repurchase transaction A form of discounting in which a corporation raises funds from a bank by selling negotiable paper to it with an undertaking to buy the paper when it matures

Required rate of return The rate of return, usually expressed as a percentage, that an organization determines is necessary before an investment can be regarded as profitable and therefore justified. In a discounted cash flow appraisal the required rate of return may be expressed as an internal rate of return and in other circumstances the return on capital employed or accounting rate of return may be regarded as appropriate.

Requisition Is a written request to buy something. Usually, once approved, the requisition is then transformed into a purchase order.

Research & development (R&D) Is research as a planned activity aimed at discovery of new knowledge with the hope of developing new or improved products and services. Development is the translation of the research findings into a plan or design of new or improved products and services.

Research and development costs The costs to a company of its research and development. Statement of Standard Accounting Practice 13, Accounting for Research and Development, distinguishes between pure research, applied research, and development. Pure research is original investigation undertaken to gain new scientific or technical knowledge and understanding, but without any specific applications. Applied research is original investigation undertaken to gain new scientific or technical knowledge with a specific practical aim or objective. Development is the use of scientific or technical knowledge to produce new or substantially improved materials, devices, products, processes, systems, or services prior to the commencement of commercial production. Under this Statement the costs of pure and applied research should be written off in the year in which they were incurred. Development expenditure, if it conforms with certain criteria, may be either written off immediately or capitalized and amortized. The decision is left to the company and by capitalizing development costs a company will be creating an intangible fixed asset to be shown on the balance sheet.

Reservation of title A sale of goods in which the seller retains title to the goods sold, or any products made from them, or the resulting sale proceeds, until the buyer pays for the goods.

Reserve Account used to earmark a portion of equity or fund balance to indicate that it is not available for expenditure. An obsolete term in the United States. More commonly used in Europe.

Reserve accounting The transfer of items directly to reserves, rather than through the profit and loss account. In certain instances this may be permitted, for example in adjusting for prior-period items.

Reserve accounts, Generally, are those accounts where retained earnings are set aside to satisfy dividends, improvements, contingencies, retirement of preferred stock, etc.

Reserve capital Is that part of the nominal (current value) of a business that has not yet been called up. It is thus a reserve, which can be drawn on in case of need.

Reserve Is an accounting entry that properly reflects contingent liabilities.

Resident Alien This is an individual that is not a citizen, but who has a residence in the United States. They are taxed on all of their income worldwide in the same manner a citizen of the United States is.

Residual claim Is a claim to a share of earnings after debt obligations have been satisfied.

Residual equity theory Is the theory that common stockholders are considered to be the real owners of the business, i.e., Assets - Liabilities - Preferred Stock = Common Stock.

Residual income Is income from efforts which continue to generate revenue over time without requiring any additional effort (e.g., a stream of future royalty payments from a book).

Residual value Is: a) Realizable Value of a fixed asset after deducting costs associated with its sale; b) Scrap value or the value to a junk dealer; or c) The amount remaining after all depreciation has been deducted from the original cost of a depreciable asset.

Residual, Generally, is something left after other parts have been taken away.

Resolution A binding decision made by the members of a company. If a motion is put before the members of a company at a general meeting and the required majority vote in favour of it, the motion is passed and becomes a resolution. A resolution may also be passed by unanimous informal consent of the members. An ordinary resolution may be passed by a bare majority of the members. The Companies Act prescribes this type of resolution for certain actions, such as the removal of a director. Normally, no particular length of notice is required for an ordinary resolution to be proposed, beyond the notice needed to call the meeting. However, ordinary resolutions of the company require special notice if a director or an auditor is to be removed or if a director who is over the statutory retirement age is to be appointed or permitted to remain in office. In these circumstances 28 days' notice must be given to the company and the company must give 21 days' notice to the members. An extraordinary resolution is one for which 14 days' notice is required. The notice should state that it is an extraordinary resolution and for such a resolution 75% of those voting must approve it if it is to be passed. A special resolution requires 21 days' notice to the shareholders and a 75% majority to be effective. The type of resolution required to make a particular decision may be prescribed by the Companies Acts or by the company's articles. For example, an extraordinary resolution is required to wind up a company voluntarily, while a special resolution is required to change the company's articles of association.

Resource absorption, In business, is the depletion of the finite resources available to a company, i.e., labor, machinery, materials, etc.

Responsibility accounting Is the collection, summarization, and reporting of financial information about various decision centers throughout an organization; can also be called profitability accounting or activity accounting. It tracks costs, revenues, or profits to the individual managers who are responsible for making the decisions about costs, revenues, or profits and taking action about them.

Responsibility center Is a subunit in an organization whose manager is held accountable for specified financial results of its activities.

Restricted assets Are assets / resources which are restricted by legal or contractual requirements for use under specific circumstances or purposes.

Restricted Fund Fund established to account for assets whose income must be used for purposes established by donors or grantors of such assets.

Restricted Is something that is curbed or regulated, e.g. restricted assets.

Restrictive covenant 1. A clause in a contract that restricts the freedom of one of the parties in some way. Employment contracts, for example, sometimes include a clause in which an employee agrees not to compete with the employer for a specified period after leaving the employment. Such clauses may not be enforceable in law.

2. A clause in a contract affecting the use of land. Twelve special schemes used by retailers to identify and allocate the total amount of taxable supplies made into the value added tax categories standard-rated, zero-rated, and exempt.

Restructuring Reorganization within an entity. Restructuring may occur in the form of changing the components of capital, renegotiating the terms of debt agreements, etc.

Results from operation Is a synonym for the financial statement of a corporation: P&L, balance sheet, statement of cash flows, and sometimes a statement of owners equity.

Retail Is the selling of goods directly to consumers; usually in small quantities and not for resale.

Retail price index (RPI) An index of the prices of goods and services in retail shops purchased by average households, expressed in percentage terms relative to a base year, which is taken as 100. For example, if 1987 is taken as the base year (i.e. average prices in 1987 = 100), then in 1946 the RPI stood at 7.4, and in 1990 at 126.1. The RPI is published by the Central Statistical Office on a monthly basis and includes the prices of some 130 000 different commodities. The RPI is one of the standard measures of the rate of inflation. In the USA and some other countries the RPI is known as the Consumer Price Index.

Retainage, In a construction contract, is the money earned by a contractor but not paid to the contractor until the completion of construction or another predetermined date. The retainage is held back as assurance for the quality of the contractors work.

Retained earnings Are profits of the business that have not been paid out to the owners as of the balance sheet date. The earnings have been "retained" for use in the business (Retained Earnings is an account in the equity section of the balance sheet). It is comprised of the balance, either debit or credit, of appropriated or unappropriated earnings of an entity that are retained in the business. NOTE: Appropriated earnings are not available for dividends, but may be used to reduce a deficit or may be transferred to stated capital. Other appropriations of profits require a vote of the shareholders.

Retirement relief A capital gains tax relief, available against a gain arising on a qualifying disposal, that is being phased out from 6 April 1998 to 6 April 2003. There are two main categories of qualifying disposals:

A material disposal of business assets,

An associated disposal.

Business assets include the whole or part of a business, including a partnership share, shares or other securities in a personal company, and assets used for business purposes when the business ceased. An associated disposal refers to the disposal of assets used in the business, which were not included in the accounts as business assets. A property owned personally, which was disposed of at the same time as the business, would be an associated disposal. Retirement relief to 5 April 1998 was full relief on the first £250,000 of a gain on disposal and 50% relief on the next £750,000 slice of gain. Each year the full relief is reduced by £50,000 and 50% relief is reduced by £150,000. The gain in excess of relief is charged to capital gains tax in full.

Retrospective reimbursement, In healthcare, is where reimbursement came after medical care was delivered.

Return of capital Is the distribution of cash that resulted from tax savings on depreciation, sale of a capital asset or securities, or any other sources unrelated to retained earnings.

Return on assets (ROA) Shows the after tax earnings of assets. Return on assets is an indicator of how profitable a company is. Use this ratio annually to compare a business' performance to the industry norms: The higher the ratio the greater the return on assets. However this has to be balanced against such factors as risk, sustainability and reinvestment in the business through development costs percentage of the assets of a company.

Return on capital employed (roce) Is a measure of how effectively the company is using its capital. The formula to measures the return on all the assets the company is using: Profit before interest and tax (PBIT) / (total assets - current liabilities)

Return on equity (ROE) Measures the overall efficiency of the firm in managing its total investments in assets and in generating a return to stockholders. It is the primary measure of how well management is running the company. ROE allows you to quickly gauge whether a company is a value creator or a cash consumer. By relating the earnings generated to the shareholders' equity, you can see how much cash is created from the existing assets. Clearly, all things being equal, the higher a company's ROE, the better the company.

Return on invested capital (roic) Is a measure of how effectively a company uses the money (owned or borrowed) invested in its company operations. It is calculated by: net income after taxes / (total assets less excess cash minus non-interest-bearing liabilities).

Return on Investment (ROI) Ratio measure of the profits achieved by a firm through its basic operations. An indicator of management's general effectiveness and efficiency. The simplest version is the ratio of net income to total assets.

Return on sales Is a measure of a company's profitability, equal to a fiscal year's pre-tax income divided by total sales.

Return on stockholders equity Is a measure of how profitably the company is utilizing shareholders' funds. It is calculated: profit after tax ÷ total stockholder's equity. Also called RETURN ON NET WORTH.

Return period The quarterly accounting period for advance corporation tax and income tax payable by companies, to 31 March, 30 June, 30 September, and 31 December. If the end of the accounting period does not coincide with one of these dates, there are five return periods in the year. The year end identifies the fifth return period; e.g. for an accounting period to 31 May, the return periods would be 31 March, 31 May, 30 June, 30 September, and 31 December.

Returns inwards (**sales returns**) Goods returned to an organization by customers, usually because they are unsatisfactory.

Returns inwards book (**sales returns book**) The book of prime entry used to record any returns of goods sold. Returns are posted to the individual debtor's account in the debtors' ledger and the total returns are posted to the debtors' ledger control account and returns inwards accounts in the nominal ledger.

Returns on investments and servicing of finance A heading required on cash-flow statements by Financial Reporting Standard 1, Cash Flow Statements, to show receipts resulting from the ownership of investments and payments to the providers of finance. Cash inflows include interest and dividends received, while cash outflows include interest and dividends paid and the interest element of finance lease rental payments.

Returns outwards book The book of prime entry used to record any returns to suppliers of goods purchased. Returns are posted to the individual creditor's accounts in the creditors' ledger and the total returns are posted to the creditors' ledger control account and returns outwards accounts in the nominal ledger.

Returns outwards Goods returned by an organization to its suppliers, usually because they are unsatisfactory.

Revalorization of currency The replacement of one currency unit by another. A government often takes this step if a nation's currency has been devalued frequently or by a large amount.

Revaluation account In a partnership to which a new partner is admitted or if an existing partner dies or retires, assets and liabilities must be revalued to their current market value. The differences between historical values and the revaluations are debited or credited to the revaluation account. The balance on the revaluation account will represent a profit or loss on revaluation, which must be shared between the partners in the profit-sharing ratio.

Revaluation An increase in the value of an asset to reflect its current market value. The asset cost account is debited and the revaluation reserve is credited. Under the alternative accounting rules, certain assets may be revalued.

Revaluation method A method of determining the depreciation charge on a fixed asset against profits for an accounting period. The asset to be depreciated is revalued each year; the fall in the value is the amount of depreciation to be written off the asset and charged against the profit and loss account for the period. It is often used for such depreciating assets as loose tools or a mine from which materials are extracted.

Revaluation of assets A revaluation of the assets of a company, either because they have increased in value since they were acquired or because inflation has made the balance-sheet values unrealistic. The Companies Act (1985) makes it obligatory for the directors of a company to state in the directors' report if they believe the value of land differs materially from the value in the balance sheet. The Companies Act (1980) lays down the procedures to adopt when fixed assets are revalued. The difference between the net book value of a company's assets before and after revaluation is shown in a revaluation reserve account or, more commonly in the USA, an appraisal-surplus account (if the value of the assets has increased). revaluation of currency An increase in the value of a currency in terms of gold or other currencies. It is usually made by a government that has a persistent balance of payments surplus. It has the effect of making imports cheaper but exports become dearer and therefore less competitive in other countries; revaluation is therefore unpopular with governments.

Revaluation reserve account (**asset revaluation reserve**) The reserve account to which the unrealized profit or loss on revaluation must be taken when the alternative accounting rules are used for the valuation of an asset. Companies have the option of choosing another name for this reserve if they wish. The revaluation reserve should be reduced to the extent that the amounts transferred to it are no longer necessary for the purpose of the valuation method used. The treatment for taxation purposes of any amounts credited or debited to the revaluation reserve must be disclosed in a note to the accounts.

Revaluation surplus, Under the revaluation model, increases in carrying amount above a cost-based measure are recognized as revaluation surplus.

Revaluation, In general, is the reconsideration of the value or worth of a property. In currency, it is the increase in the exchange rate of a currency as a result of official action.

Revenue 1. Any form of income.

2. Cost and income items that are either charged or credited to the profit and loss account for an accounting period.

Revenue adjustment Is a journal entry to either increase or decrease revenue based upon new data; thereby either increasing or decreasing cash.

Revenue bonds Are a type of municipal bond where principal and interest are secured by revenues such as charges or rents paid by users of the facility built with the proceeds of the bond issue. Projects financed by revenue bonds include highways, airports, and not-for-profit health care and other facilities.

Revenue centre The area of an organization for which income is collected. Revenue centres are determined by individual organizations and they may be a function, department, section, individual, or any group of these that generates income.

Revenue contract Is a binding agreement between a governmental body and another party that defines the terms under which revenue will be received. A contract can be distinguished from a customer purchase order by the fact that a contract will contain the signatures of both parties, while a purchase order will contain only the signature of the customer.

Revenue cycle The portion of a company that fills customer orders, accounts for receivables, and collects those receivables.

Revenue expenditure Is the cost of resources consumed or used up in the process of generating revenue, generally referred to as expenses.

Revenue function A formula or equation representing the way in which particular items of income behave when plotted on a graph. For example, the most common revenue function is that for total revenue in the equation $y = bx$, where y = total revenue, b = selling price per unit of sales, and x = number of units sold.

Revenue Is the inflows of assets from selling goods and providing services to customers; including the reduction of liabilities from selling goods and providing services to customers.

Revenue justified Is where the revenue realized from a product or service will pay for the cost and expenses of that product or service, i.e. the product or service will pay for itself.

Revenue recognition Is the process of recording revenue, under one of the various acceptable methods, in the accounting period. In each period of revenue recognition, all related expenses should be matched to revenue. The most common method of recognizing revenue is at the time of sale or provisioning of service.

Revenue reserve is a fund that is not a CAPITAL RESERVE, i.e. the funds are distributable.

Revenue transaction A transaction that is generally of a short-term nature and is only expected to benefit the current period. Revenue transactions appear in the profit and loss account of the period.

Revenues Sales of products, merchandise, and services; and earnings from interest, dividend, rents.

Reverse cost-benefit method Is based on the short-cut rate of return formula and amounts to asking the question: given the cost of the investment, what level of annual benefits would produce a given rate of return (8 percent, for instance) on the investment?

Reverse premium A cash payment made to a lessee as an encouragement to enter into a lease agreement. Under Urgent Issues Task Force, Abstract 12, such payments received by a lessee should be spread on a straight-line basis over the lease term or, if shorter than the full lease term, over the period to the review date on which the rent is first expected to be adjusted to the prevailing market rate.

Reverse takeover Can occur in different forms: 1. a smaller corporate entity takes over a larger one.; 2. a private company purchases a public one; or, 3. a method of listing a private company while bypassing most securities regulations, whereby which a shell public company buys out a functioning private company whose management then controls the public company.

Reversing entry Is a very special type of adjusting entry. Generally, it is a debit or credit bookkeeping entry made to reverse a prior bookkeeping entry. They can be extremely useful and should be used where necessary. A reversing entry comes in two parts: the original adjusting entry, and the reverse, or opposite entry. The second entry is written by simply reversing the position of all debits and credits. Ultimately, the end result on the books is zero, but the adjusting entry serves to correctly allocate an expense, so the financial statements are correct.

For example: X Company has a payroll department, and cuts checks every two weeks after tabulating hours, and calculating net pay. A large number of allocations have to be made to various withholding accounts. The accountants don't want to interfere with the operations of the payroll department. And the employees also want the department to run efficiently so they can get their pay checks on time.

At the end of the year the accountants need to appropriately allocate payroll expenses, plus taxes due and payable. Rather than interfere with the payroll department the calculation is made on paper (or computer), and entered as an adjusting entry. It is marked to be reversed. After the closing entries are made, the first entries of the new year are the reversing entries. They undo the effects of the adjusting entry.

If the adjusting entry is not reversed, the books will not be correct. Both the accountants and payroll department will be making entries related to payroll. The reversing entry effectively allows the accountants to make adjusting entries without causing the books to be incorrect; the payroll department continues to make routine entries, and doesn't need to make any special entries or allocations.

Reversionary bonus A sum added to the amount payable on death or maturity of a with-profits policy for life assurance. The bonus is added if the life-assurance company has a surplus or has a profit on the investment of its life funds. Once a reversionary bonus has been declared it cannot be withdrawn if the policy runs to maturity or to the death of the insured. However, if the policy is cashed, the bonus is usually reduced by an amount that depends on the length of time the policy has to run.

Review Engagement Agreement between a certified public accountant (CPA) and his or her client to perform a review.

Review Is an accounting service providing some assurance to the Board of Directors and interested parties as to the reliability of financial data without the CPA conducting an examination in accordance with generally accepted accounting standards. The AICPA auditing standards board formulates review standards for public companies while the AICPA Accounting and Review Services Committee provides review standards for non-public businesses.

Revision variance (**planning variance**) A variance in standard costing that adjusts the basic standard to take into account any changed circumstances since the original standard was set. Establishing revision variances avoids having to reset standards for marginal changes in the underlying circumstances, while at the same time retaining the ability to identify the operational variances during an accounting period.

Revocable Beneficiary In the case of an insurance policy, the policyholder, in the case of a trust, the grantor, has the right to change the beneficiary at any time.

Revocable letter of credit Is a letter of credit which can be cancelled or altered by the drawee (buyer) after it has been issued by the drawee's bank.

Revolving acceptance facility by tender (**RAFT**) An underwritten facility from a bank to place sterling acceptance credits through the medium of a tender panel of eligible banks. revolving bank facility (standby revolving credit) A loan from a bank or group of banks to a company in which the company has flexibility with regard to the timing and the number of drawdowns and repayments; any loan repaid can be reborrowed subject to fulfilment of the conditions of the committed facility. The facility can be a bilateral bank facility or a syndicated bank facility.

Revolving collateral Are accounts receivable or inventory which change from day to day.

Revolving financing Is financing secured by collateral.

Revolving fund Is money that is renewed as it is used.

Revolving line of credit In commercial banking is a contractual agreement between a bank and, usually, a company where the bank agrees to provide loans up to a specified maximum over a specified period, usually a year or more. In consumer banking, it is a loan account requiring monthly payments less than the full amount of the loan, and the balance is carried forward with a finance charge on that balance.

Revolving loan Is a loan that is automatically renewed upon maturity.

Rfid ? Radio frequency identification tag? is attached to and identifies a thing such as an item in inventory, a case of items, a pallet of cases, a car passing through a reader on a tollway, or a person passing through a doorway. A transceiver sends an activating signal and receives identification information. An active RFID tag has an internal battery and has a longer range than a passive tag which is powered by the radio signal it receives.

Rfp Is Request for Proposal.

Right to Setoff Debtor's legal right, to discharge all or a portion of the debt owed to another party by applying against the debt an amount that the other party owes to the debtor.

Rights Assertions about rights deal with whether the entity has rights to the asset at a given date. For example, management asserts that amounts capitalized for leases in the balance sheet represent the cost of the entity's rights to leased property.

Rights issue A method by which quoted companies on a stock exchange raise new capital, in exchange for new shares. The name arises from the principle of pre-emption rights, according to which existing shareholders must be offered the new shares in proportion to their holding of old shares (a rights offer). For example in a 1 for 4 rights issue, shareholders would be asked to buy one new share for every four they already hold. As rights are usually issued at a discount to the market price of existing shares, those not wishing to take up their rights can sell them in the market.

Ring-fence 1. To allow one part of a company or group to go into receivership or bankruptcy without affecting the viability of the rest of the company or group.

2. To assign a sum of money to a particular purpose so that it does not become part of the general resources of an organization.

Risk adjusted return Is when we subtract from the rate of return on an asset a rate of return from another asset that has similar risk. This gives an abnormal rate of return that shows how the asset performed over and above a benchmark asset with the same risk. We can also use the beta against the benchmark to calculate an alpha which is also risk adjusted performance.

Risk analysis The measurement and analysis of the risk associated with financial and investment decisions. Risk arises when future events cannot be predicted with certainty but a range of possible outcomes enable an estimate to be made of their probability. Risk analysis is particularly important with capital-investment decisions because of the large amount of capital usually required and the long-term nature of the projects.

Risk Is the measurable possibility of losing or not gaining value. Risk is different from uncertainty. Uncertainty is not measurable.

Risk Management Process of identifying and monitoring business risks in a manner that offers a risk/return relationship that is acceptable to an entity's operating philosophy.

Risk premium (**market-risk premium**) The difference between the expected rate of return on an investment and the risk-free return (e.g.

on a government stock) over the same period. If there is any risk element at all, the rate of return would be higher than that if no risk is involved.

Risk-based audit An auditing technique that responds to the risk factors in an audit by assessing the levels of risk attached to different areas of an organization's system and using the results to devise audit tests. The purpose is to focus the audit on the areas of highest risk in order to improve the chances of detecting errors.

Risk-free rate of return The rate of interest that an investment carrying no risk is capable of earning.

Robust Is when a business is considered fully developed and healthy.

Rocc Is an acronym for Return On Committed Capital.

Rog, In business, is an acronym meaning "Receipt Of Goods".

ROI (Return on Investment) Can be calculated in various ways. The most common method is Net Income as a percentage of Net Book Value (total assets minus intangible assets and liabilities).

Roll forward, In accounting, it is the systematic establishment of a new accounting period's balances by using (rolling forward) prior accounting period data. There are two approaches:

Roll forward both asset and liabilities on a consistent basis from a consistent earlier date (possibly the last annual review); or, take the most up to date asset and liability figures as the starting point (which may be at different dates) to produce roll forward estimates of assets and liabilities; in securities, it is when an investor replaces an old options position with a new one having a later expiration date (and same strike price).

Rolling budget A budget that is regularly updated by adding a further budget period, such as a month or a quarter, while at the same time dropping out the earliest month or quarter as appropriate.

Rolling stock Is the equipment available for use as transportation, as automotive vehicles, locomotives, or railroad cars, owned by a particular company or carrier. Does not include aircraft or water borne craft.

Roll-over relief (replacement of business asset relief) A relief from capital gains tax on certain disposals. A gain arising on the disposal of a business asset may be rolled over in full, resulting in no payment of capital gains tax on its disposal. This can only occur if all the proceeds received from the disposal of the asset are re-invested in a new business asset. Both the old and new asset must both be business assets, which are defined as:

Land or buildings,

Fixed plant and machinery,

Ships, aircraft, and hovercraft,

Goodwill,

Satellites, space stations, and spacecraft,

Milk and potato quotas,

Premium quotas for ewes and suckler cows.

The old asset and the new asset do not have to belong to the same category. The proceeds on disposal of land (the old asset) could be rolled over into the acquisition of a milk quota (the new asset). Full roll-over relief would be available if all the proceeds from the land were used to acquire the milk quota.

Romalpa clause A clause included in a contract of sale in which the seller retains the title of the goods sold until they have been paid for. This is of importance to accountants as it may affect the ownership of stocks; it is essential to determine whether the commercial substance of a transaction rests ownership of an asset in the purchaser, irrespective of any legal agreement. This clause derives its name from the case of *Aluminium Industrie Vasseen BV v. Romalpa Aluminium Ltd* (1976), which was concerned with the practice of selling goods subject to reservation of title.

Rotation of directors Under the articles of association of most companies, the obligatory retirement of one third of the directors each year (normally at the annual general meeting), so that each director retires by rotation every three years. Retiring directors may be re-elected.

Round tripping An opportunity to make a profit by making use of a bank overdraft facility to deposit funds in the money market at rates that exceed the cost of the overdraft. The practice is frowned upon by banks because they may be having to use the money market to fund their customers' overdrafts. This accounts for the name 'round tripping'.

Routine Transactions Recurring financial activities reflected in the accounting records in the normal course of business.

Royalty Is the share of the product, or of the proceeds realized from the product, reserved by an owner for permitting another entity to exploit and use that entity's property, i.e. it is the rental paid to the original owner of property based upon a percentage of sales, profit or production. Royalty can involve literary works, inventions, and other intellectual property, as well as mining leases and conveyances.

Rule of thumb Is a rough and useful principle or method, based on experience rather than precisely accurate measures.

Run rate, In finance, is how the financial performance of a company would look if you were to extrapolate current results out over a certain period of time. In accounting, it is the average annual dilution from stock option grants at a company over the most recent three year period reported in the annual report.

Running costs The expenditure incurred in order to carry out the operations of a fixed asset. Examples are power, maintenance, and consumable materials for a machine or fuel, oil, tyres, and servicing for motor vehicles.

Running rate Is a sustained constant rate, often the only important single rate except for zero observed under a given schedule (as in some ratio performances); also known as *stream rate*.

Running total Is the sum of any given set of numbers that is incremented/decremented as additional numbers become available over time. For example, a retail store makes sales throughout a time period, the running total is the sum of their sales, including returns/credits, at any given point of time during that time period: day, week, month, quarter, year.

S

S Corporation A corporation that is not taxed as a separate entity. Instead, the income, losses, credits, etc. are passed through to the shareholders.

S Corporation An S Corporation is a corporation which, under the Internal Revenue Code, is generally not subject to federal income taxes. Instead, taxable income of the corporation is passed through to its stockholders in a manner similar to that of a partnership.

SAEF *Abbreviation for* Stock Exchange Automatic Execution Facility.

Safe harbor rule Is a concept in statutes and regulations whereby a person who meets listed requirements will be preserved from adverse legal action. Frequently, safe harbors are used where a legal requirement is somewhat ambiguous and carries a risk of punishment for an unintended violation.

Safety stock A level of stock that provides a safety buffer in the event of increased demand or reduced receipt of stocks. The level for any item should not be allowed to fall below the safety stock.

Sale and leaseback A transaction in which the owner of an asset sells it and immediately purchases back from the buyer the right to use the asset under a lease. The lease may be a finance lease or an operating lease.

Sale and repurchase agreement An arrangement in which an asset is sold by one party to another on terms that provide for the seller to repurchase the asset under certain circumstances. Sale and repurchase agreements, which are examples of off balance sheet finance, are dealt with by Financial Reporting Standard 5, Reporting the Substance of Transactions. In a number of cases the agreement will in substance be that of a secured loan in which the seller retains the risks and rewards of ownership of the asset. In these cases the seller should show the original asset on the balance sheet, together with a liability for the amounts received from the buyer.

Sale or return Terms of trade in which the seller agrees to take back from the buyer any goods that he has failed to sell, usually in a specified period. Some retail shops buy certain of their goods on sale or return.

Sale-Leaseback Transaction Sale of property by a seller who simultaneously leases the property back from the purchaser.

Sales / receivables (receivables turnover) Is a ratio that measures the number of times trade Receivables turn over during the year. Generally, the higher the turnover of receivables, the shorter the time between sale and cash collection. It indicates how fast the company is getting paid for goods and services. Receivables turnover is best compared to the industry in order to determine if the company should improve their collection rate. The faster the receivables turnover, the better cash flow will look. Slow or below par turnover can be an indication of systemic problems within the company. It is best to compare receivables turnover with that of industry averages.

Sales account An account used to record cash and credit sales transactions resulting from the sale of goods or services.

Sales and collections budget Represents one of the first steps in the budgeting process, as items such as inventory levels and operating expenses are driven off of the Sales and Collections Budget. Effective sales budgeting is a key factor in building a useful and representative financial model for a business. Regardless of the nature of your business (for example, whether it is product or service-based).

Sales budget A budget set for the sales function of an organization under a system of budgetary control; it includes, inter alia, the sales volumes and the sales revenue to be achieved in a budget period. It will usually provide an analysis of the budgets by product, market segment, and by accounting period.

Sales cost budget A budget that determines the expenditure the sales function is allowed to incur in achieving the sales volumes and sales revenue budgets during a budget period. It includes such costs as sales personnel salaries, advertising expenditure, and promotional costs.

Sales credit note A credit note sent by a seller to a customer to cancel, or partly cancel, an invoiced charge.

Sales day book (**sales journal; sold day book**) The book of prime entry in which an organization records the invoices issued to its customers for goods or services supplied in the course of its trade. Postings are made from this book to the personal accounts of the customers, while the totals of the invoices are posted to the sales account in the nominal ledger.

Sales discount Is a reduction in the selling price usually as an inducement to consummate a sale. Sales Discount is on the income statement as a deduction from Gross Sales to get Net Sales.

Sales forecast An estimate of future sales volumes and revenue. It is usually based on past trends and takes into account current and future directions,

Such as government regulations, economic forecasts, and industry conditions.

Sales function The section of an organization responsible for selling its products and services.

Sales invoice Is a document that records the sale of goods or services from a *vendor* to a *customer*.

Sales margin mix variance (sales mix profit variance) The adverse or favourable variance arising in standard costing as a result of a difference between the actual mix of sales achieved and the budgeted mix of sales. It is made up of the difference between the actual total sales volume based on the actual mix by product and the actual total sales volume based on the budgeted mix by product, valued at the standard margin per product.

Sales margin price variance (selling price variance) The adverse or favourable variance arising in standard costing as a result of the difference between the actual sales revenue achieved and the actual sales quantities at budgeted or standard selling prices.

Sales margin volume variance (sales volume variance) The adverse or favourable variance arising in standard costing as a result of the difference between the actual number of units sold and those budgeted, valued at the standard profit margin.

Sales mix The relative proportions of individual products that make up the total units sold.

Sales multiple Is the most widely used valuation benchmark used in the valuation of a business.

The information needed are annual sales and an industry multiplier, which is usually a range of .25 to 1 or higher. The industry multiplier can be found in various financial publications, as well as analyzing sales of comparable businesses. This method is easy to understand and use. The sales multiple is often used as the valuation benchmark.

Sales order, Also known as SALES CONTRACT, is a contract by which buyer and seller agree to the terms and conditions of a sale.

Sales proceeds Are the sum of the service units (products, services) sold by a corporation within a particular period. The sales proceeds are calculated from the quantities sold (pcs, kg, hrs) multiplied by the sales price per unit within a particular period.

Sales returns 1. 2. A report on sales made in a period.

Sales revenue The income arising from the sales of products or services.

Sales tax Is a tax levied by a government entity, usually state or city, on the retail price of an item and certain taxable services, collected by the retailer.

Salvage value Is: a) Realizable value of a fixed asset after deducting costs associated with its sale; b) Scrap value or the value to a junk dealer; or c) The amount remaining after all depreciation has been deducted from the original cost of a depreciable asset.

Same store sales Is used when analyzing the retail industry. It compares sales in stores which have been open for a year or more.

Sample 1. A small quantity of a commodity, etc., selected to represent the bulk of a quantity of goods.

2. A small quantity of a product, given to potential buyers to enable them to test its suitability for their purposes.

3. A small group of items selected from a larger group to represent the characteristics of the larger group. Samples are often used in marketing research because it is not feasible to interview every member of a particular market; however, conclusions about a market drawn from a sample always contain a sampling error and must be used with caution. The larger the sample, in general, the more accurate will be the conclusions drawn from it. In quota sampling the composition of the sample reflects the known structure of the market. Thus, if it is known that 60% of purchasers of household DIY products are men, any sample would reflect this. An alternative sampling procedure is random sampling, which ensures that everyone in a particular market has an equal chance of selection. Although more accurate than quota sampling, it is also more expensive.

Sample size The number of population items selected when a sample is drawn from a population.

Sampling error Unless the auditor examines 100% of the population, there is some chance the sample results will mislead the auditor. This risk is sampling error. The larger the sample, the less chance of sampling error and the greater the reliability of the results.

Sampling frame A listing of the population from which a sample is to be drawn.

Sampling risk The possibility that conclusions drawn from the sample may not represent correct conclusions for the entire population.

Samurai bond A bond issue, denominated in yen, made in the Japanese domestic market by a foreign (non-Japanese) issuer; it is thus the Japanese equivalent of a Yankee bond.

Sandwich Lease Where a tenant subleases part or all of his space to other tenants.

Sap Is an integrated enterprise resource planning system that seamlessly integrates most activities of a company.

Save-as-you-earn A method of making regular savings (not necessarily linked to earnings), which carries certain tax privileges. This method has been used to encourage tax-free savings in building societies or National Savings and also to encourage employees to acquire shares in their own organizations.

Savings accounts Are client accounts maintained by banks, savings & loan associations, credit unions, and mutual savings banks that pay interest but can not be used directly as money. These accounts let customers set aside a portion of their liquid assets that could be used to make purchases. But to make those purchases, savings account balances must be transferred to "transactions deposits" (or "checkable deposits") or currency. However, this transference is easy enough that savings accounts are often termed near money. Savings accounts, as such constitute a sizeable portion of the M2 monetary aggregate. With savings accounts you can make withdrawals, but you do not have the flexibility of using checks to do so. As with an MMDAs (money market deposit account), the number of withdrawals or transfers you can make on the account each month is usually limited.

Savings ratio The ratio of savings by individuals and households to disposable income. Savings are estimated in the national income accounts by deducting consumers' expenditure from disposable income. Variations in the savings ratio reflect the changing preferences of individuals between present and future consumption. Countries, such as Japan, with very high savings ratios have tended to experience faster growth in GDP than countries, such as the USA, with low savings ratios.

Savings related share option scheme An approved share option scheme established by an employer. An employee or director, who is granted rights to acquire shares by such a scheme, is not charged to income tax on the receipt of the right nor on the exercise of the right. Capital gains tax will be payable on disposal of the shares for a consideration in excess of the allowable cost, taking into account the indexation allowance.

Sbic Is Small Business Investment Company.

Scalpers Traders in the futures and options markets who deal very frequently and may only hold a position for a few minutes.

Scatter diagram A graph on which observations are plotted on the *y*-axis for events on the *x*-axis. For example, the wages incurred (*y*-axis) for each level of activity (*x*-axis) would produce a scatter graph from which a relationship can be established between the two variables, say by linear regression, as an aid to predicting cost behaviour.

Schedule Is an ordered list of times at which things are planned to occur, e.g., cash receipts schedule and amortization schedule.

Scheme of arrangement A compromise agreement made between a company and its shareholders or creditors as an alternative to bankruptcy. This is usually achieved by applying the assets and income of the debtor in proportionate payments to the creditors. This is sometimes known as a composition. Once a scheme of arrangement has been agreed, a deed of arrangement is drawn up.

Scienter theory Is based on the word 'scienter', which is Latin for "having knowledge." In criminal law, the theory refers to knowledge by a defendant that his/her acts were illegal or his/her statements were lies and thus fraudulent. In securities, it is to knowingly transact a fraudulent securities deal.

Scope paragraph The paragraph in the audit report that explains the scope of the engagement. The wording of the standard scope paragraph is: "We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion."

Scope The type of engagement. The scope of an engagement might be a review, an audit, or a compilation. A scope limitation is a restriction on the evidence the auditor can gather.

Scorekeeping One of the functions of management accounting in which the performance of the managers and operators is monitored and reported in accounting statements to the appropriate levels of management.

Scrap 1. What is left of an asset at the end of its useful life, which may have a salvage value.

2. The waste arising from a production process, which may have a salvage value.

Scrip issue (bonus issue; capitalization issue; free issue) The issue of new share certificates to existing shareholders to reflect the accumulation of profits in the reserves of a company's balance sheet. It is thus a process for converting money from the company's reserves into issued capital. The shareholders do not pay for the new shares and appear to be no better off. However, in a 1 for 3 scrip issue, say, the shareholders receive one new share for every three existing shares they own. This automatically reduces the price of the shares by 25%, catering to the preference of shareholders to hold lower-priced shares rather than heavy shares; it also encourages them to hope that the price will gradually climb to its former value, which will, of course, make them 25% better off. In the USA this is known as a stock split.

Scrip The certificates that demonstrate ownership of stocks, shares, and bonds (capital raised by subscription), especially the certificates relating to a scrip issue.

Sdcf Is Sales & Distribution Cash Flow.

Second request When an auditor confirms receivables, some customers of the client fail to respond to the first confirmation request. Another request sent to the same customers is the second request.

Secondary auditor The auditor of a subsidiary company who is not also the auditor of the parent company.

Secondary market A market in which existing securities are traded, as opposed to a primary market, in which securities are sold for the first time. In most cases a stock exchange largely fulfils the role of a secondary market, with the flotation of new issues representing only a small proportion of its total business. However, it is the existence of a flourishing secondary market, providing liquidity and the spreading of risks, that creates the conditions for a healthy primary market.

Second-hand goods scheme An arrangement in which the value added tax due on second-hand goods sold is calculated on the trader's margin, rather than the total selling price of the goods. This applies regularly with sales of second-hand cars. In order to qualify, the trader must retain detailed records of car purchases and sales, which must be available for inspection at a VAT control visit.

Secret reserve Funds accumulated by a company but not disclosed on the balance sheet. They can arise when an asset has been deliberately undervalued or a method has been used to account for a transaction with the intention of not showing the effect on the balance sheet. Financial Reporting Standard 5, Reporting the Substance of Transactions, is aimed at off balance sheet finance.

Secured creditor A creditor who holds either a fixed charge or a floating charge over the assets of its debtor.

Secured Is an obligation backed by a pledge of collateral. Opposite of unsecured.

Secured liability Is a liability that has a degree of protection towards satisfaction if unpaid because the debtor has pledged personal/company assets towards satisfaction of that liability; e.g., a property mortgage is a secured liability because the mortgage holder has a guarantee through a lien on the property.

Secured transaction Right to repossess goods as security for payment of a debt.

Securities and Exchange Commission (SEC) Agency authorized by the United States Congress to regulate the financial reporting practices of most public corporations.

Securities and futures authority ltd (SFA) The Self-Regulating Organization formed from the merger of The Securities Association Ltd (TSA) and the Association of Futures Brokers and Dealers Ltd (AFBD) in April 1991. It is responsible for regulating the conduct of brokers and dealers in securities, options, and futures, including most of those on the London Stock Exchange and the London International Financial Futures and Options Exchange.

Securities and investment board (SIB) A regulatory body set up by the Financial Services Act (1986) to oversee London's financial markets (e.g. the stock exchange, life assurance, unit trusts). Each market has its own SelfRegulating Organization (SRO), which reports to the SIB. The prime function of the SIB is to protect investors from fraud and to ensure that the rules of conduct established by the government and the SROs are followed. However, as the structure of City institutions and their regulation is not fixed for all time, the role of the SIB has to be capable of adapting to changing practices. Moreover, some City activities are outside its control; for example, takeovers remain under the supervision of the Takeover Panel. Members of the SIB are appointed jointly by the Secretary of State for Trade and Industry and the Governor of the Bank of England from leading City institutions; while this understandably leads to suggestions of partisanship, it is doubtful whether outsiders would have sufficient understanding of City practices to be effective as regulators. The SIB is authorized to grant recognition to investment institutions and is financed by the fees paid to achieve this recognition.

Securities fraud, In most cases, is nothing more than stealing. Federal and state securities laws contain more technical definitions. But when investors are enticed into purchasing security instruments based on untrue data, statements or promises, it is securities fraud.

Securitization Is the process of creating a pass-through, such as the mortgage pass-through security, by which the pooled assets become standard securities backed by those assets. Also, refers to the replacement of non-marketable loans and/or cash flows provided by financial intermediaries with negotiable securities issued in the public capital markets.

Security Dependent upon usage is: a. a guarantee that an obligation will be met; b. defense against financial failure; financial independence; c. property that your creditor can claim in case you default on your obligation; or, d. a formal declaration that documents a fact of relevance to finance and investment; the holder of which has a right to receive interest or dividends, e.g. stocks and bonds.

Security Interest Legal interest of one person in the property of another to assure performance of a second person under a contract.

Segment revenue Is revenue, including intersegment revenue, which is directly attributable or reasonably allocable to a segment. Includes interest and dividend income and related securities gains only if the segment is a financial segment (bank, insurance company, etc.).

Segmental reporting 1. The disclosure in the annual accounts and report of certain results of major business and geographical segments of a diversified group of companies. Segmental reporting is required by company law, the stock exchange, and Statement of Standard Accounting

Practice 25. The argument for segmental reporting is that the disclosure of profitability, risk, and growth prospects for individual segments of a business will be of use to investors. Under SSAP 25 companies should disclose, for both business and geographical segments, turnover, profit or loss before tax, minority interests, extraordinary items, and net assets. 2. The approach in management accounting in which the financial and quantitative performance of each definitive part of an organization is reported to both the management of the business segment and of the organization as a whole.

Segregated fund Is a pooled investment fund, much like a mutual fund, established by an insurance company and segregated from the general capital of the company. Its chief distinction from a mutual fund is its guarantee that, regardless of fund performance, at least a minimum percentage of the investor's payments into the fund will be returned when the fund matures.

Segregation Of duties means assigning different people the responsibilities of authorizing transactions, recording transactions, and maintaining custody of assets. Segregation of duties reduces the opportunities for one person to both perpetrate and conceal errors or fraud.

Self Employment Tax Most individuals that are in business for themselves, such as sole proprietors, partners or independent contractor, are subject to self employment taxes. The taxes provide coverage for the self employed individual for social security (OASDI) and Medicare benefits (HI) similar to the taxes withheld by employers from wages it pays the employees.

Self supply The value added tax charge on a commercial building, which is used for an exempt purpose, on the grant of an interest in the building. Output tax is charged on the land and the building costs. Input tax is allowed on the building costs. The self supply is due to be assessed and paid within three months of the initial occupation.

Self-assessment A form of assessment for taxpayers, in which the taxpayer rather than the Inland Revenue makes the assessment. The scheme was introduced for the year to 5 April 1997 for individual taxpayers and represented a major change in the administration of tax. Self-assessment tax returns are due to be completed and received by Inland Revenue on or before 31 January following the end of the fiscal year to which they refer. The taxpayer is required to provide information on the tax return of income and gains made during the year and to calculate the tax liability arising. The Inland Revenue provides a tax calculation service for taxpayers who send in their tax returns by 30 September following the end of the fiscal year. Tax is paid on three dates: 31 January during the fiscal year (the first payment on account), on 31 July following the end of the fiscal year (the second payment on account), with the final balance due on 31 January following the end of the fiscal year. The Inland Revenue can made random enquiries into any tax return under self-assessment.

Self-assessment for companies A scheme for the self-assessment of tax by companies, introduced for accounting periods ending after 1 July 1999. The dates for payment of tax and for filing the tax returns are similar to those under the pay and file system. However, large companies are now required to pay corporation tax by quarterly instalments, commencing in the seventh month of the accounting period. Payment by instalments will be phased in over a three-year period, July 1999-June 2002.

Self-Charged Interest The portion of interest charged on a lending transaction between a flow-through entity (S corporation or partnership) and its partners or shareholders which represents a payment a person makes to himself or herself. Stated differently, it is the amount the lender/borrower reports as interest income/expense which is equal to the lender's/borrower's distributive share of the flow through entity's interest deduction. The interest payments received are generally treated as portfolio income.

Self-checking digit An extra digit is added to a number. The extra digit is computed from the other digits in the number. The computer program can then check input by recomputing and comparing the check digit. This is a useful control over the input of account numbers.

Self-contruct assets Is the costs incurred to build it yourself.

Self-Rented Property Personal or real property a taxpayer rents to an entity in which the taxpayer materially participates. For example, you rent real property you own personally to an S corporation in which you materially participate.

Seller Carry-Back Also known as seller financing, it's where the seller provides some or all of the financing in connection with the sale of real estate or a business.

Selling overhead (selling costs) The expenses incurred by an organization in carrying out its selling activities. These would include salaries of sales personnel, advertising costs, sales commissions, etc.

Sell-through, In retail sales, is the number of product distributed that are actually sold, e.g. movies sold as compared to rented.

Semi-fixed cost (stepped cost) An item of expenditure that increases in total as activity rises but in a stepped, rather than a linear, function. For example, the costs of one supervisor may be required for a particular range of activity, although above this level the cost of an additional supervisor would be incurred.

Semivarialble cost Is one that varies with changes in volume, but, unlike variable cost, does not vary in direct proportion. This component contains both fixed and variable elements, e.g., a rented vehicle may have a rental fee (fixed), but contain a mileage adder (variable).

Senior debt/note Are loans or debt securities that have a claim prior to junior obligations and equity on a corporation's assets in the event of a liquidation.

Sensex Is a Bombay Stock Exchange Index (BSE 30-Share Benchmark Sensex Index).

Sensitive assets Are those assets that can be affected by uncontrollable external factors. There are interest rate sensitive assets (assets yielding cash-flows at some fixed points in the future) and theft-sensitive assets (inventory for example).

Sensitive liabilities Normally refers to 'interest rate sensitive liabilities' (i.e., liabilities where there is a floating interest rate).

Sensitivity analysis Is the analysis of how sensitive outcomes are to changes in the assumptions. The assumptions that deserve the most attention should depend largely on the dominant benefit and cost elements and the areas of greatest uncertainty of the program or process being analyzed.

Separate taxation of wife's earnings An election available before April 1990, in which both parties to a marriage agreed to treat the wife's earnings separately from the husband's. Since 1990 spouses' earnings have been treated separately.

Separate-entity concept The concept that the financial statements of an organization should describe the business as if it were entirely separate from its owners.

Separation point (split-off point) In process costing, the point at which the by-products or the joint products separate and are subsequently processed independently of each other.

Serial bond Is a bond issue in which the bonds mature periodically over a number of years.

Service An economic good consisting of human worth in the form of labour, advice, managerial skill, etc., rather than a commodity.

Service auditor The auditor of an organization that provides services such as data processing or pension trust administration to other organizations (the users). Auditors of the users (user auditors) rely on a report from the service auditor about controls in the service organization that apply to financial statements of the user organization they are auditing.

Service business Is a form of business providing different types of labor services in a wide variety of business sectors, e.g., lawn mowing, housecleaning and clothes cleaners are three types of consumer services offered to the general public.

Service charge accounting, In property management, is estate and property service charge accounting system that provides the mechanism for comprehensive service charge reconciliation reports for both the tenant and the property manager. Expenditure can be apportioned equally over the entire service charge period or can be allocated to a specific date range within the period. Full budget reporting and next period budget calculation routines are usually provided.

Service contract Is a contract offered by a retailer for maintaining and repairing a product beyond its manufacturer's warranty coverage.

Service cost centre (indirect cost centre; service department; support cost centre) A cost centre to which costs are allocated or apportioned in absorption costing; though the service cost centre is necessary to carry out the production process, it is incidental to it and does not handle the cost unit. Examples of service cost centres are stores, canteens, and boiler houses.

Service level agreement (SLA) Is performance objectives reached by consensus between the user and the provider of a service, or between an outsourcer and an organization. A service level agreement specifies a variety of performance standards that may or may not include "service level."

Services to trade include banking, insurance, transport, etc. Professional services encompass the advice and skill of accountants, lawyers, architects, business consultants, doctors, etc. Consumer services include those given by caterers, cleaners, mechanics, plumbers, etc. Industry may be divided into extractive, manufacturing, and service sectors. The service industries make up an increasing proportion of the national income.

Setoff Is the discharge of a debt by setting against it a distinct claim in favor of the debtor.

Settled property Property that is included in an interest-in-possession trust. A person entitled to benefit from the settled property is known as the life tenant. When the estate of the life tenant is assessed for inheritance tax, the value of the settled property is included, provided the property does not comprise excluded property. The inheritance tax attributable to the settled property is payable by the trustees of the interest-in-possession trust and this is shown separately in the inheritance-tax computation of the life tenant.

Settlement day The day on which trades are cleared by the delivery of the securities or foreign exchange.

Settlement Method Method of accounting for securities whereby transactions are recorded on the date the securities settle by the delivery or receipt of securities and the receipt or payment of cash.

Settlement Options Different ways of taking the proceeds from a life insurance policy. For example, rather than receiving the proceeds in a lump sum, the beneficiary can request the insurer to pay the amount out over several years. Interest is added to the principal to reflect the delayed payout.

Set-up time The time taken to prepare a machine, process, or operation to carry out production. It may involve such operations as tool setting, calibration, and the initialization of the production process.

Severance tax Is levied on production of natural resources taken from land or water bottoms within the territorial boundaries of a state.

Severe long-term restrictions Restrictions that hinder the exercise of the rights of a holding company over the assets or management of a subsidiary undertaking. Severe long-term restrictions may be used as grounds for excluding a subsidiary from consolidation; if it is so excluded, a subsidiary should be treated as a fixed-asset investment.

Shadow director A person in accordance with whose instructions the directors of a company are accustomed to act although that person has not been appointed as a director. A shadow director influences the running of the company and some provisions of the Companies Acts, including wrongful trading and the regulation of loans to directors, relating to directors also extend to shadow directors.

Shadow price The opportunity costs that arise in the solution to a linear programming model.

Shallow discount bond A bond issued in a primary market at a price exceeding 90% of its face value, i.e. a bond in which the discount does not exceed 10%.

Share application money Is that money received by a company during an IPO. Payments received for a subscription of stock is normally received over the IPO life. For example: Widgets Limited has been registered with an authorized capital of $2,00,000 divided into 2,000 shares of $100 each of which, 1,000 shares were offered for public subscription at a premium of $5 per share, payable as:

On application $10on allotment $25 (including premium)on first call $40 on final call $30

For a total of $105/share

The amounts received would be carried as a current liability until such time as the stock is issued, then it would be considered as part of equity.

Share buy-back Is when a company makes an offer to buy back some of its own shares. There are several types of buy-backs. Three common types are: 1. an equal access scheme - when the company offers to buy back the same proportion of each shareholder's shares;

2. a selective buy-back - when the company offers to buy back shares from only one or some of its shareholders; or,

3. the company may buy the shares on the exchange where the shares are traded.

Share capital Is that portion of a corporation's equity obtained from issuing shares in return for cash or other considerations.

Share certificate A document that provides evidence of ownership of shares in a company. It states the number and class of shares owned by the shareholder and the serial number of the shares. It is stamped by the common seal of the company and usually signed by at least one director and the company secretary. It is not a negotiable instrument.

Share Is one unit of ownership interest in a company, mutual fund, limited partnership, etc.

Share issued at a discount A share issued at a price (the issue price) below its par value. The discount is the difference between the par value and the issue price.

Share issued at a premium A share issued at a price (the issue price) above its par value. The premium is the difference between the issue price and the par value. Except in special circumstances, the premium must be credited to a share premium account.

Share One of a number of titles of ownership in a company. Most companies are limited by shares, thus if a company fails an investor has a liability that is limited to the amount paid for (or owing on) the shares. A share confers on its owner a legal right to the part of the company's profits (usually by payment of a dividend) and to any voting rights attaching to that share . Companies are obliged to keep a public record of the rights attaching to each class of share. The common classes of shares are: ordinary shares, which have no guaranteed amount of dividend but carry voting rights; and preference shares, which receive dividends (and/or repayment of capital on winding-up) before ordinary shares, but which have no voting rights. Shares in public companies may be bought and sold in an open market, such as a stock exchange. Shares in a private company are generally subject to restrictions on sale, such as that they must be offered to existing shareholders first or that the directors' approval must be sought before they are sold elsewhere.

Share option The right to buy a fixed quantity of shares at a particular date, at a particular price. An option is a right, not an obligation, so the holder does not have to buy the shares. Share options are sometimes given to employees and company executives on favourable terms.

Share premium account The account to which the premium must be credited for shares issued at a premium. The balance on the share premium account may be used for specified purposes:

The issue of bonus shares;

The writing-off of preliminary expenses;

The writing-off of underwriting commissions;

Tthe provision of a premium to be paid on the redemption of debentures;

The provision of a premium to be paid on the redemption or purchase of share capital, subject to certain limits.

The share premium account may not be used to write off goodwill on consolidation. Relief from the creation of a share premium account is given in section 131 of the Companies Act; this is known as merger relief and is available in specified circumstances.

Share premium Is the difference between the higher price paid for a share of stock and the stocks par value when issued.

Share premium The amount payable for shares in a company and issued by the company itself in excess of their nominal value . Share premiums received by a company must be credited to a share premium account, which cannot be used for paying dividends to the shareholders, although it may be used to make scrip issues.

Share splitting The division of the share capital of a company into smaller units. The effect of a share split is the same as a scrip issue although the technicalities differ. Share splits are usually carried out when the existing shares reach such a high price that trading in them becomes difficult.

Share transfer (stock transfer) A change in the ownership of a share or stock. On the Stock Exchange a stock transfer form (or transfer deed) has to be signed by the seller of registered securities to legalize the transaction.

Share warrant A certificate giving the holder the right to purchase a security at a particular price at a particular date or dates in the future.

Shareholder Is an individual or company, (including corporations) that legally owns one or more shares of a company.

Shareholder loans Include any loans between a corporation and any of its shareholders. Loans from shareholders are normally carried as long-term debt, but the reality is such loans should be counted as equity (they are not) because they rarely are paid back to the shareholder.

Shareholder of record Is any individual or company that owns at least one share of stock of a corportion; such shares represented by a stock certificate or record of shares held by the owner's broker.

Shareholder's equity Is total assets minus total liabilities. It is the same as EQUITY, NET WORTH and stockholder's equity.

Shareholders fund Is equity plus accumulated profits.

Sharpe ratio, Named after William P. Sharpe, is a measurement of portfolio trading performance. It is calculated by subtracting risk free rate from total portfolio return, then dividing by the standard deviation of the portfolio:Sharpe ratio = Total portfolio return – Risk free rate / Portfolio standard deviation.

Shell company 1. A non-trading company, with or without a stockexchange listing, used as a vehicle for various company manoeuvres or kept dormant for future use in some other capacity.

2. A company that has ceased to trade and is sold to new owners for a small fee to minimize the cost and trouble of setting up a new company. Some business brokers register such companies with the sole object of selling them to people setting up new businesses. The name and objects of such a company can be changed for a small charge.

3. A company, normally with a stock exchange quotation, that has become relatively inactive and has little by way of earnings or assets. An entrepreneur with a profitable private company can sometimes gain control of a shell company and inject his private business into it to avoid the requirements and costs of a listing, thus acquiring a ready-made stockmarket presence.

Ship in place Is sales billed to customers prior to delivery and held by the seller (also: “bill and hold” or “bill in place” sales).

Shipping document A document prepared when goods are shipped. It lists the date shipped, the customer, method of shipment, and quantities and specifications of goods shipped.

Shipping notice Is a formal notification that goods ordered are en-route to their destination.

Short An investor is said to be short if he has sold stock that he does not own, that is, he has sold stock he borrowed from his broker. In the case of an option, the seller or writer has a short position if he has sold the option short.

Short lease A lease that has less than 50 years to run, as defined by the Companies Act (1985).

Short position A position held by a dealer in securities ,commodities, currencies, etc., in which sales exceed holdings because the dealer expects prices to fall, enabling the shorts to be covered at a profit.

Short Sale Sale of an item before it is purchased. A person entering into a short sale believes the price of the item will decline between the date of the short sale and the date he or she must purchase the item to deliver the item under the terms of the short sale.

Short term asset Is an asset expected to be converted into cash within the normal operating cycle (usually one year), e.g. accounts receivable and inventory.

Short term liability Is a liability that will come due within one year or less.

Short-form audit report In the USA, a standard audit report that conforms to the short-form reporting requirements of the Securities and Exchange Commission and the American Institute of Certified Public Accountants. The first paragraph of the report indicates what the auditor has done and the second paragraph gives the findings.

Short-term interest rates The rates of interest on short-term loans, i.e. loans that are made for a short period. Banks will usually pay higher rates for short-term loans, in which no withdrawal is permitted until the money is withdrawn on an agreed date, usually within three months. However, when banks are asked to make loans for a short term (usually less than one year), their interest rate charged may be lower than for a long-term loan, which will involve a higher risk.

Short-term Usually encompasses a calendar of 12 months or less.

Short-termism Any policy that aims to maximize current profits rather than long-term development and wealth. For example, cutting back on research and development reduces immediate costs but may lead to products becoming obsolescent in the future.

Shrinkage Is: 1. The amount by which something shrinks;

2. process or result of becoming less or smaller (Example: “The material lost 2 inches per yard in shrinkage”); or,

3. the act of stealing goods that are on display in

a store (Example: “Shrinkage” is the retail trade’s euphemism for shoplifting).

SIAS *Abbreviation for* Statement on Internal Auditing Standards.

Sight draft Is a draft which is payable on demand.

Signature loan Is a loan secured by the borrower with nothing more than the signature of that borrower.

Significance Is a meaning that is not expressly stated but can be inferred, e.g. the significance of an increase in product demand can only be known after the financial effects are calculated.

Significant Accounts An account is significant if there is more than a remote likelihood that the account could contain misstatements that individually or when aggregated with others, could have a material effect on the financial statements, considering the risks of both overstatement and understatement.

Significant Deficiency Acontrol deficiency or combination of control deficiencies, that adversely affects the company’s ability to initiate, authorize, record, process or report external financial data reliably in accordance with GAAP such that there is more than a remote likelihood that a misstatement of the company’s annual or interim financial statements that is more than inconsequential will not be prevented or detected.

Significant Findings or Issues Substantive matters that are important to the procedures performed, evidence obtained, or conclusions reached and include but are not limited to:

1. significant matters
2. results of auditing procedures indicating a need for significant modification of planned auditing procedures
3. audit adjustments
4. disagreements among members of the engagement team
5. circumstances that cause difficulty in applying auditing procedures
6. significant changes in the assessed level of audit risk
7. matters that could result in modification of the auditor’s report

Significant Participation Activity A business in which you participate more than 100 hours without materially participating. If the total hours of participation in your significant participation activities (SPA) exceed 500, the total net income from SPAs is treated as nonpassive.

Sign-off Is approval or agreement, e.g. to sign-off on a purchase contract.

Silent partnership Is the relation of partnership sustained by a person who furnishes capital only, i.e., the partner is not involved in the day-to-day operations or decisions of the entity.

Simple interest Is interest computed on principal alone, as opposed to compound interest which includes accrued interest in the calculation.

Simple journal entry Is a journal entry that involves only one debit and one credit in the transaction.

Simple Plans An employer may adopt a simplified retirement plan called a Simple Plan (Savings incentive match plan for employees) if it has fewer than 100 employees that received at least $5,000 in compensation in the preceding year.

Simple Trust This type of trust is required to distribute all its income currently, whether or not the trustee actually does so, and it has no provision in the trust instrument for charitable contributions. It is to be distinguished from a complex trust. A trust may be a simple trust in one year and a complex trust in another year. In the year in which the trust distributes its corpus, it loses its classification as a simple trust.

Simplex method (**simplex algorithm**) A method of obtaining a linear programming solution by producing a series of tableaux. The technique, a step by step iterative process, tests a number of feasible solutions in turn until the final optimal solution is obtained. It lends itself to computer applications.

Simplified financial statements Simplified versions of the annual accounts and report intended for readers who do not possess sophisticated financial knowledge. The financial information may be made easier to understand by using simple financial terminology, showing the information in the forms of graphs and diagrams, providing fuller explanations, and reducing the amount of information. One form of simplified financial statement is the employee report, which is intended for employees and not covered by legislation; another form is the summary financial statement intended for shareholders and subject to legislation.

Simulation Representation of the operation or features of one process or system through the use of another. Computer simulation of waiting lines can determine the number of employees needed to serve customers at a particular time.

Single Audit Act The Single Audit Act of 1984 and the Single Audit Act Amendments of 1996 establish requirements for audits of states, local governments, and nonprofit organizations that administer federal financial assistance programs above a certain threshold.

Single property ownership trust (SPOT) A single property trust; shares in the trust entitle their holder to a direct share of the property's income and capital. A form of securitization, a share in a SPOT is similar to a property income certificate (PINC).

Single-entry bookkeeping Is a simple bookkeeping system in which all transactions are recorded in a single record (e.g., a checkbook that indicates expenditures only). Single-entry does not rely upon equal debits and credits.

Sinking fund Is a sum set apart periodically from the income of a government or a business and allowed to accumulate in order ultimately to pay off a debt. A preferred investment for a sinking fund is the purchase of the government's or firm's bonds that are to be paid off. Usually the fund is administered by a trustee.

Sips Is an acronym for Secure Internet Payment Service (e.g., Cybercash).

Sister company Is similar to the way in which a family is structured, two or more sister companies (sibling) share the same Parent Company or individual owner. Like a Subsidiary, it is a separately incorporated business.

Skip person Is a transfer of property to a person who is in a generation below a child of the transferor, referred to as a "skip" person, typically a grandchild or great grandchild.

Sku Is an acronym for Stock Keeping Unit. It is usually used to identify an item carried in inventory or stock.

Sleeping partner A person who has capital in a partnership but takes no part in its commercial activities. He has all the legal benefits and obligations of ownership and shares in the profits of the partnership in accordance with the provisions laid down in the partnership agreement.

Slippage Is the difference between estimated transactions costs and actual transactions costs. The difference usually represents revisions to price difference or spread and commission costs.

Slr Is an acronym with several possible meanings, e.g., Stock Level Report, Stock Level Requirement, System Level Requirement(s), Statutory Liquidity Ratio.

Small Business Stock Noncorporate investors may exclude up to 50 percent of the GAIN they realize on the disposition of qualified small business stock issued after Aug. 10, 1993, and held for more than five years. The amount of gain eligible for the 50 percent exclusion is subject to per-issuer limits. In order to qualify for the exclusion, the CORPORATION issuing the stock must be a C Corporation (but excluding certain investment corporations) and it must use at least 80 percent of its assets in active conduct of one or more qualified trade or businesses. In addition, its gross assets cannot exceed $50 million.

Small companies relief Small company A company that meets the following criteria for the current and preceding financial year:

Its balance-sheet total does not exceed £1.4 million (i.e. assets before deducting current liabilities and long-term liabilities);

Its turnover does not exceed £2.8 million. This must be proportionally adjusted when the financial year is longer or shorter than 12 months;

The average number of employees should not exceed 50.

A company that is in its first financial year may still qualify as a small company if it falls within these limits. Alternatively, if the company has qualified in the two preceding financial years, it may qualify. If a company is a member of a group containing a public company, a banking or insurance company, or an authorized person under the Financial Services Act (1986), it is not eligible for the exemptions for small or medium-sized companies.

A small company with a turnover of not more than £90,000 (and balancesheet total of not more than £1.4 million) is exempt from a statutory audit of its annual accounts. A company with a turnover of between £90,001 and £350,000 (and balance-sheet total of not more than £1.4 million) may also take advantage of the small company audit exemption, but will need an audit exemption report.

A small company is entitled to reduce the amount of information in its annual report to members. The exemptions allow a number of combinations of format-heading items in the balance sheet and notes.

A small company may also file abbreviated accounts with the Registrar of Companies.

Small group A group that meets two out of three of the following criteria for the current and preceding year, or the two preceding financial years:

Its balance-sheet total should not exceed £1.4 million (i.e. assets before deducting current liabilities and long-term liabilities);

Its turnover should not exceed £2.8 million. This must be proportionally adjusted when the financial year is longer or shorter than 12 months;

The average number of employees should not exceed 50.

If a group is in its first financial year, it may still qualify if it falls within these limits.

An intermediate holding company or an ultimate holding company cannot qualify as a small company or a medium-sized company unless the group headed by it qualifies as a small group or a medium-sized group. A group containing a public company, a banking or insurance company, or an authorized person under the Financial Services Act (1986) is ineligible for the exemptions for small groups or medium-sized groups.

Under the Companies Act, a parent company is not required to prepare group accounts for a financial year in which the group headed by that parent qualifies as a small group.

A small group may file abbreviated accounts instead of full accounts with the Registrar of Companies.

Small-cap Is a stock with a capitalization, meaning a total equity value, of less than $500 million.

Social accounting issues Issues that concern the impact of an entity on society, both within the organization and externally. Social accounting issues may include charitable donations of equipment and time, education initiatives (such as sponsorships and research funding), product safety, community involvement, employment of disadvantaged groups, and the provision of sports equipment or sponsorship. Environmental issues that are often also included under this heading include energy conservation and control of pollution.

Social audit An audit of the impact of an organization on society. For example, an environment audit is one kind of social audit.

Social capital Is networks, together with shared norms, values and understandings which facilitate cooperation within or among those groups for mutual benefit.

Social cost Is the cost to society as a whole from an event, action, or policy change. Includes negative externalities and does not count costs that are transfers to others, in contrast to private cost.

Social entity Is the separate existence of an organization that is perceived to exist, by its members and the public at large, as a 'given', i.e. something that exists before and outside of them.

Social responsibility reporting The reporting of the costs and benefits of social accounting issues by a business. This may be included in a separate report or as part of the annual accounts. The costs are the costs to the business, for example of equipment donated, of sponsorship given, or of charitable donations. The benefits should be expressed as a monetary quantification of social benefits, which are often very hard to measure and necessarily subjective.

Soes (small order execution system) Trading is an electronic method of day trading the NASD market. At present, SOES trading is at the center of controversy between the NASD, SEC, individual traders, and the courts. SOES is changing the way trading is done on the NASD, and it may rewrite the rules of the game for trading. Bandits is just a term being used for the individuals using the SOES system for day trading.

Soft close, In accounting, is when journal entries may be allowed to periods previously considered closed with the confidence that you can create corrected financial statements and that balances brought forward are corrected; in securities, is when a fund will no longer accept new investors into the fund, however existing shareholders can continue to contribute.

Soft costs Are those extraneous costs that are not readily foreseen or budgeted for, e.g. legal fees, loan fees and interest, etc.

Soft currency A currency that is not freely convertible and for which there is only a thin market.

Software package A set of computer programs that work together to achieve a specific purpose; for example, a spreadsheet package, a wordprocessing package, or an accounting package. Many accounting packages for large organizations are broken down into specific aspects of bookkeeping and control.

Software Programs and languages that control computer hardware.

Sole practitioner A sole proprietor who has a professional practice as an accountant, solicitor, etc.

Sole propriertorship Is a business structure in which an individual and his/her company are considered a single entity for tax and liability purposes. A sole proprietorship is a company which is not registered with the state as a limited liability company or corporation. The owner does not pay income tax separately for the company, but he/she reports business income or losses on his/her individual income tax return. The owner is inseparable from the sole proprietorship, so he/she is liable for any business debts; also called proprietorship. The distinguishing characteristics of a sole proprietorship include: only one owner for the business (hence, "sole") and the business is unincorporated.

Sole proprietor Is an individual who owns a business as opposed to stock in a corporation. A sole proprietor pays no corporate income tax but has unlimited liability for his/her business debts and obligations.

Solicitors' accounts Accounts prepared under the Solicitors' Account Rules, a key feature of which is that money held on behalf of clients is accounted for separately from the money owned by the practice.

Solomons Reports 1. *Prospectus for a Profession* (1974), written by Professor David Solomons, which deals with the education and training of accountants.

2. *Guidelines for Financial Reporting Standards* (1989) by the same author, which sets out a conceptual framework for financial accounting.

Solvency Is a company's long-term ability to meet all financial obligations.

Some disadvantages can be:

Sufficient cash flow is required to service a higher debt load. The need for this cash flow can place pressure on a business if income streams are erratic.

Susceptibility to interest rate increases.

Directing cash flow to service debt may starve expenditure in other areas such as development which can be detrimental to overall survival of the business.

Sop Is Statement of Position (within the AICPA or FASB) or Standard Operating Procedure.

Sound, When used in a financial context, means financially secure and safe.

Source and application of funds (**source and disposition of funds**) A statement describing how a business has raised and used its funds for a specified period. Originally, a statement of source and application of funds was required by Statement of Standard Accounting Practice 10, Statements of Source and Application of Funds, to be produced by a company if its turnover or gross income was at least £25,000. However, this is now obsolete since SSAP 10 has been withdrawn and replaced by Financial Reporting Standard 1, Cash Flow Statements.

Source documents Are the primary documents used when forwarding an argument or making a presentation of fact. Usually used as a direct reference as a source of empirical data, expert opinion or information.

South sea bubble The collapse of the British share market in 1720, which led to legislation restricting the formation of joint-stock companies. There had been a period of highly speculative investment and the matter came to a head when the South Sea Company offered to take over the national debt. A spectacular rise in the share price of the company was followed by an equally spectacular fall leading to the bankruptcy of many investors and charges of corruption levelled at certain members of the government.

Sovereign risk The risk inherent in an overseas project that the assets on which the cash flow for repaying loans or generating profits is dependent could be expropriated by the local government.

Special Assessment Charge made by a local government for the cost of an improvement or service. It is usually levied on those who will benefit from the service.

Special commissioners A body of civil servants who are specialized tax lawyers appointed by the Lord Chancellor after consultation with the Lord Advocate to hear appeals against assessments to income tax, corporation tax, and capital gains tax. A taxpayer may generally choose to appeal to the Special Commissioners, rather than the General Commissioners, particularly in cases in which legal matters rather than questions of fact are at issue.

Special journal Contains records of original entry other than the general journal that are designed for recording specific types of transactions of similar nature, e.g. Sales Journal, Purchase Journal, Cash Receipts Journal, Cash Disbursements Journal, and Payroll Journal.

Special memorandum account (SMA) Is a sub-account of a margin account for excess equity. It can be withdrawn or used to buy more securities.

Special purpose vehicle (SPV) Is an organization constructed with a limited purpose or life. Frequently, these Special Purpose Vehicles serve as conduits or pass through organizations or corporations. In relation to securitisation, it means the entity which would hold the legal rights over the assets transferred by the originator.

Special Report Special report is a term applied to Auditors' reports issued in connection with various types of financial presentations, including: Financial statements that are prepared in conformity with a comprehensive basis of accounting other than generally accepted accounting principles. Specified elements, accounts or items of a financial statement. Compliance with aspects of contractual agreements or regulatory requirements related to audited financial statements. Financial presentations to comply with contractual agreements or regulatory provisions. Financial information presented in prescribed forms or schedules that require a prescribed form of auditor's reports.

Special resolution A resolution of the members of a company that must be approved by at least 75% of the members to be valid. Members must have been given at least 21 days' notice of the meeting at which the resolution is proposed and the notice of meeting must give details of the special resolution.

Specialist An expert at activities not usually done by auditors (such as an appraiser for valuation).

Special-purpose entity (SPE) Is a financing vehicle that is not a substantive operating entity, usually one created for a single specified purpose. An SPE may be in the form of a corporation, trust, or partnership. Special-purpose entities have been used for several decades for asset securitization, risk sharing, and to take advantage of tax statutes.

Specific bank guarantee An unconditional guarantee from the Export Credits Guarantee Department to a bank enabling that bank to finance an exporter's medium-term credit to an export. customer without recourse; the arrangement is known as supplier credit in contrast to the buyer credit under which the bank finances the overseas buyer to pay the exporter on cash terms.

Specific Coverage An insurance policy or endorsement where coverage is limited to the property specified in the contract.

Specific identification method Is an inventory costing method under which the actual cost of a particular item is assigned to that item; used for determining cost of goods sold.

Specific identificaton inventory valuation Is a method of valuing and tracking inventory where each item can be identified. Specific identification is most often used for large, easily traceable items, such as furniture or vehicles. If tracking each individual inventory item is not practical, the inventory can be valued using other accepted methods, such as the first-in, first-out method (FIFO) or the last-in, first-out method (LIFO).

Specific research Is a method used when gathering primary information for a market survey where targeted customers / consumers are asked very specific and in-depth questions geared toward resolving problems found through prior exploratory research.

Specified Perils Contract An insurance policy on real or personal property where only coverage is limited to the enumerated perils. For example, flood insurance covers only floods, no other peril.

Spending level Is the true expenditure or cash outlay of any entity in a given category or budgetary area.

Spendthrift Clause A clause in a trust, insurance policy, etc. that guards the assets against unwise use by the beneficiary. In some cases the assets cannot be attached by creditors. Often used by parents to provide for children who might otherwise waste the assets or pledge them.

Spin-off Is a type of corporate reorganization in which the original corporation transfers some of its assets to a newly formed corporation. In exchange for the spun off assets, the original corporation receives all of the new corporation's capital stock, which it then distributes to its shareholders as a property dividend.

Spin-off ruling Is a legally binding ruling by the Internal Revenue Service as to any aspect of a spin-off by a corporation.

Split payment Allows the customer to: a. pay part of the bill with cash and part with a credit card; or, b. apply portions of payments across several invoices.

Split-interest agreement, In not-for-profits, is a contribution to the institution in which the institution must share the investment income/ benefits with the donor and other beneficiaries if designated.

Split-off point Is the stage in the production process at which joint products become identified as distinct products which can be sold or processed further; this is called the split-off point.

Sponsor The issuing house that handles a new issue for a company. It will supervise the preparation of the prospectus and make sure that the company is aware of the benefits and obligations of being a public company.

Spontaneous assets Are assets that arise automatically, in the course of operating a company day-to-day, when a company purchases assets and they are delivered.

Spontaneous liabilities Are obligations that are realized automatically, in the course of operating a company day-to-day, when a company buys goods and services on credit.

Spot commodity Is a commodity traded with the expectation that it will actually be delivered to the buyer, as contrasted with to a FUTURES CONTRACT that will usually expire without any physical delivery actually taking place. Spot commodities are traded in the SPOT MARKET.

Spot Market Market for buying and selling commodities or financial instruments for immediate delivery and payment based on the settlement conventions of the particular market.

Spot rate Is the price at which a currency can be purchased or sold and then delivered within two business days, e.g., spot dollar.

Spot-cash Is the immediate cash payment on a transaction.

Spread Difference between two prices, usually a buying and selling price.

Spreadsheet Is (1) A multi-column sheet of paper used for performing numeric work, especially accounting and business related weekly or monthly summaries. (2) A computer application program that supports a user in numeric manipulation, especially in column / row format.

Sqcs Statement on Quality Control Standards.

Square position An open position that has been covered or hedged.

Ssars Statements on Standards for Accounting and Review Services (SSARS) are pronouncements concerning unaudited financial information of a nonpublic entity issued by the aicpa Accounting and review services committee.

Stabilization The activities of the lead manager of a bond issue in the grey market that are intended to reduce fluctuations in the price of the bond before and just after issue.

Stabilized income Is the projected planned revenue that is subject to change but represents the best annualized estimate of consistent income.

Stable dollar assumption Is when using money as a measuring unit and preparing financial statements expressed in dollars, accountants make the assumption that the dollar is a stable unit of measurement.

Stable monetary unit concept Allows accountants to ignore the effect of inflation in the accounting records.

Stable unit of measure, In accounting, assumes that money is used as the basic measuring unit for financial reporting. Money is the common denominator in which accounting measurements are made and summarized. The dollar, or any other monetary unit, represents a unit of value; that is, it reflects an ability to command goods and services. Implicit in the use of money as a measuring unit is the assumption that the dollar is a stable unit of value, just as the kilometer is a stable unit of distance and the hectare is a stable unit of area.

Stag A person who applies for shares in new issues in the hope that the price when trading begins will be higher than the issue price. Often measures will be taken by the issuers to prevent excessive stagging; it is usually illegal for would-be investors to attempt to obtain large numbers of shares by making multiple applications. Issuers will often scale down share applications to prevent such quick-profit taking, e.g. by ballot.

Staggered directorships A measure used in the defence against unwanted takeover bids. If the company concerned resolves that the terms of office served by its directors are to be staggered and that no director can be removed from office without due cause, a bidder cannot gain control of the board for some years, even with a controlling interest in the share capital.

Stake Is a share or an interest in an enterprise, especially a financial share.

Stakeholders Those with interests in an organization; for example, as shareholders, employees, suppliers, or customers. Stakeholders may be users of the annual accounts and report of the organization and dependent to some degree on its financial position and performance.

Stale check Is a check that is six months or older than the date affixed to the check by the maker. If a customer's check is presented more than six months after the date appearing on the check, the paying bank has the option of paying or dishonoring the check because the check is deemed "stale".

Stand-alone computer A self-contained computer that can be operated without having to be connected to a central computing facility or to a network.

Standard and poor's (s&p) 500 Is an index of the 500 largest, most actively traded stocks on the New York Stock Exchange. It provides a guide to the overall health of the US stock market.

Standard cash flow pattern The circumstances applying in a discounted cash flow calculation in which the projected cash flows are made up of an initial cash outflow followed by subsequent cash inflows over the life of the project, there being no net cash outflows in subsequent years.

Standard cost allowance The level of expenditure allowed to be incurred under a standard costing system for variable costs, taking into account the actual levels of activity achieved. For example, the standard cost allowance for direct materials is obtained from the actual number of units produced multiplied by the standard direct materials cost per unit.

Standard cost Is production or operating cost that is carefully predetermined. A standard cost is a target cost that *should be attained*. The standard cost is compared with the actual cost in order to measure the performance of a given costing department or operation.

Standard cost system Is an accounting system designed to properly allocate costs of direct labor, indirect labor, materials, overhead, and selling/general/administrative accounts on a unit basis for the purpose of accurately costing products and the subsequent control of those costs in managing the production, marketing, purchasing, and administrative functions of the business.

Standard costing A system of cost ascertainment and control in which predetermined standard costs and income for products and operations are set and periodically compared with actual costs incurred and income generated in order to establish any variances.

Standard Deduction Individual taxpayers who do not itemize their deductions are entitled to a standard deduction amount by which to reduce adjusted gross income in arriving at taxable income. The amount of the standard deduction varies by the type of the taxpayer and changes each year. A schedule of standard deductions is easily found in the instructions for the federal form 1040. Each state may also use a standard deduction format, but the amounts and computations differ from the federal and from state to state. Certain taxpayers may not be entitled to use the standard deduction. An example of this would be a married filing separate taxpayer. If one taxpayer itemizes then the other is required to by law even if the married filing separate taxpayer is unknowing of what is included on the spouses separate return. A reason for this might be the prevention of pooling and duplication of deductions.

Standard deviation A statistic used to measure dispersion equal to the square root of the arithmetic mean of the squares of the deviations from the arithmetic mean.

Statistical Making inferences in uncertain situations using applied mathematics. Measurements from a small group, the sample, are used to infer the behavior of a larger group, the population. Probability theory determines how well the sample represents the population.

Standard direct labour cost In standard costing, a standard cost derived from the standard time allowed for the performance of an operation and the standard direct labour rate for the operators specified for that operation.

Standard direct labour rate A predetermined rate of pay for direct labour operators used for establishing standard direct labour costs in a standard costing system; it provides a basis for comparison with the actual direct labour rates paid.

Standard direct materials cost In standard costing, a standard cost derived from the standard quantity of materials allowed for the production of a product and the standard direct materials price for the materials specified for that product.

Standard direct materials price A predetermined price for direct materials used for establishing standard direct materials costs in a standard costing system in order to provide a basis for comparison with the actual direct material prices paid.

Standard fixed overhead cost In standard costing, a standard cost derived from the standard time allowed for the performance of an operation or the production of a product and the standard fixed overhead absorption rate per unit of time for that operation or product.

Standard hour A measure of production (not time) that represents the amount of work, number of units produced, etc., that can be achieved within an hour under normal conditions. It is used to calculate the efficiency ratio and efficiency variances.

Standard marginal costing A system of cost ascertainment and control in a marginal costing system in which predetermined standards for marginal costs and income generated for products and operations are set and periodically compared with actual marginal costs incurred and income generated in order to establish any variances.

Standard materials usage A predetermined quantity of materials to be used in the production of a product, which is ultimately compared with the actual quantity of material used to provide a basis for material control. The difference between standard and actual usage is used in standard costing to calculate the direct materials usage variance.

Standard mix 1. The predetermined proportions in which a mixture of different materials are intended to be used in a manufacturing process. It is set as a standard for the purposes of calculating the direct materials mix variance. 2. The budgeted total volume of sales of an organization expressed in predetermined proportions of its range of related products. It is set as a standard for the purposes of calculating sales margin mix variances.

Standard operating cost The total of all the standard cost allowances for the actual level of activity achieved by an organization.

Standard operating profit The budgeted revenue from an operation less the standard operating cost.

Standard overhead cost A standard cost for the fixed and/or variable overhead of an operation derived from the standard time allowed for the performance of the operation or the production of a product and the standard overhead absorption rate per unit of time for that operation or product.

Standard performance (**standard operator performance**) A predetermined level of performance for an operator or a process used as a basis for determining standard overhead costs. For example, standard performance may be expressed as the number of units of production per standard hour, standard minute, or per working day.

Standard production cost The production costs of products and operations calculated from predetermined levels of performance and cost in order to provide a yardstick against which actual production costs can be compared for the purposes of cost ascertainment and control.

Standard purchase price A predetermined price set for each commodity of direct material for a specified period. These prices are compared with the actual prices paid during the period in order to establish direct materials price variances in a system of standard costing.

Standard rate and data service (SRDS), In advertising, is a company that produces a directory for each different type of media; normally listing: rates, circulation, contacts, markets serviced, etc.

Standard rate of pay A predetermined rate of pay set for each classification of labour for a period. These rates are compared with the actual rates paid during the period in order to establish direct labour rate of pay variances in a system of standard costing.

Standard selling price A predetermined selling price set for each product sold for a specified period. These prices are compared with the actual prices obtained during the period in order to establish sales margin price variances in a system of standard costing.

Standard time The time allowed to carry out a production task in a standard costing system. It may be expressed as the standard time allowed or alternatively, when expressed in standard hours, as the output achieved.

Standard rate The rate of value added tax applied to all items sold by taxable persons that are not specified as either exempt supplies or zerorated goods and services. The rate for 1999-2000 is 17.5%, which has been the rate since 1 April 1991. From 18 June 1979 to 1 April 1991 the standard rate was 15%.

Standard variable overhead cost A standard cost derived from the standard time allowed for the performance of an operation or the production of a product and the standard variable overhead absorption rate per unit of time for that operation or product.

Standby Loan A commitment by a lender to make a loan on specified terms. Generally, neither the potential borrower nor lender anticipate the loan will be taken down. Instead, it's anticipated it will be replaced by a permanent loan.

Standing data Information held on file in a computer for long-term use because it does not often change. An example is the names and addresses of clients.

Startup costs Or Organization Cost, is when a new corporation is created, the costs associated with the formation are not deductible. An election must be made to amortize organizational costs no later than the due date (including extensions) of the return for tax year in which the active trade or business begins. If an election is not made to amortize these costs, they must be capitalized on the books and are not subject to amortization resulting in permanent capitalization. Upon making the timely election, the corporation may recover these costs through amortization deductions over a 60 month period. Organizational expenditures include any expenditure which is:

Incident to the creation of the corporation, chargeable to capital account, and

Is of a character which, if expended incident to the creation of a corporation having a limited life, would be amortizable over such life.The following are examples of organization costs: Legal services incident to the organization of the corporation, such as drafting the corporate charter, by-laws, minutes of organizational meetings, terms of original stock certificates, etc. necessary accounting services.

Expenses of temporary directors and of organizational meetings of directors or stockholders.

Fees paid to state of incorporation.

Stated capital Is the declared total amount of money or other resources owned or used to acquire future income or benefits.

Stated Value Per share amount set by the board of directors to be placed in the capital stock account upon issuance of no-par value.

Statement of accounting policies Is normally comprised of: a definition of the reporting organization, statement of general accounting policies, statement of particular accounting policies, and a statement of changes in accounting policies.

Statement of affairs Is a specialized form of financial statement setting out the debtor's assets and liabilities - secured, preferred and unsecured. This document is usually prepared on short notice and from incomplete records. It is sworn to by an officer of the company and or by the bankrupt where applicable. The trustee often has a different opinion as to the value of the assets and the extent of liabilities included therein. The formalized statement of affairs is sworn under oath by the debtor before a lawyer or designated legal/court entity.

Statement of auditing standards Any of the statements issued by the Auditing Practices Board on basic principles and essential procedures in auditing. Auditors are required to comply with an SAS, except where otherwise stated in the SAS concerned, in the conduct of any audit of financial statements. Some SAS are also published containing auditing standards that apply to other audits and to related services provided by auditors.

Statement of Cash Flows A statement of cash flows is one of the basic financial statements that is required as part of a complete set of financial statements prepared in conformity with generally accepted accounting principles. It categorizes net cash provided or used during a period as operating, investing and financing activities, and reconciles beginning and ending cash and cash equivalents.

Statement of Financial Accounting Standards (SFAS) Statements issued by the Financial Accounting Standards Board (FASB).

Statement of Financial Condition Basic financial statement, usually accompanied by appropriate DISCLOSURES that describe the basis of accounting used in its preparation and presentation as of a specified date, the entity's assets, liabilities and the equity of its owners. Also known as balance sheet.

Statement of fund balance Is part of the Financial Statements of certain regulated entities, e.g. local, county, and state, governments. The content or configuration of the Consolidated Financial Statements normally includes a Consolidated Statement of Fund Balance along with separate Statements of Fund Balance for all authorized funds within the jurisdiction, e.g. General Operating Fund and Airport Operating Fund.

Statement of movements in shareholders' funds A statement that reconciles changes in the financial position of an organization that are not shown on the statement of total recognized gains and losses covered by Financial Reporting Standard 3, Reporting Financial Performance.

Statement of principles A discussion paper issued by the Accounting Standards Board; it is intended to form a conceptual framework. There are seven

Chapters:

1. The Objectives of Financial Statements
2. Qualitative Characteristics of Financial Information
3. The Elements of Financial Statements
4. The Recognition of Items in Financial Statement
5. Measurement in Financial Statements
6. Presentation of Financial Information
7. The Reporting Enity

Statement of recommended practice (SORP) Non-mandatory statements dealing with accounting topics issued by the Accounting Standards Committee (ASC). Some franked SORPs were prepared by other bodies, mainly on an industry basis, and were approved by the ASC, a process known as franking. The ASC's successor, the Accounting Standards Board, does not issue or frank SORPs.

Statement of retained earnings Is one of the four basic financial statements; the Statement of Retained Earnings is a reconciliation of the Retained Earnings account. Information such as dividends or announced income is provided in the statement. The Statement of Retained Earnings provides information about what a company's management is doing with the company's earnings.

Statement of standard accounting practice (SSAP) Any of the accounting standards prepared by the Accounting Standards Committee and issued by the six members of the Consultative Committee of Accountancy Bodies. The first SSAP was issued in 1971 and in total 25 SSAPs were issued. Before a SSAP was issued a discussion document known as an exposure draft was circulated for comment. The SSAPs issued are given below, although some of these were withdrawn by the ASC, amended, or superseded by the later Financial Reporting Standards:

1. Accounting for the Results of Associated Companies
2. Disclosure of Accounting Policies
3. Earnings per Share
4. The Accounting Treatment of Government Grants
5. Accounting for Value Added Tax
6. Extraordinary Items and Prior Year Adjustments
7. Accounting for the Changes in the Purchasing Power of Money (provisional)
8. The Treatment of Taxation under the Imputation System
9. Stocks and Work in Progress
10. Statement of Sources and Application of Funds
11. Accounting for Deferred Taxation
12. Accounting for Depreciation
13. Accounting for Research and Development
14. Group Accounts
15. Accounting for Deferred Taxation
16. Current Cost Accounting
17. Accounting for Post Balance Sheet Events
18. Accounting for Contingencies
19. Accounting for Investment Properties
20. Foreign Currency Translation
21. Accounting for Leases and Hire Purchase Contracts
22. Accounting for Goodwill
23. Accounting for Acquisitions and Mergers
24. Accounting for Pension Costs
25. Segmental Reporting

Statement of stockholders' equity Is a summary of the changes in stockholders' equity of a corporation that have occurred during a specific period of time.

Statement of total recognized gains and losses A primary statement showing the extent to which shareholders' equity has increased or decreased from all the various gains and losses recognized in the period. It includes profits and losses for the period, together with all other movements on reserves reflecting recognized gains and losses attributable to shareholders. The statement is dealt with under Financial Reporting Standard 3, Reporting Financial Performance.

Statement on internal auditing standards (SIAS) Any of the statements issued by the Internal Responsibilities Committee of the Institute of Internal Auditors, based in the USA.

Statements on auditing Documents issued by the Institute of Chartered Accountants in England and Wales, covering the current practice of the larger auditing firms. The statements are withdrawn when an auditing standard is issued on the same topic.

Statements on Auditing Standards (SAS) Statements issued by the Accounting Standards board of the American Institute of Certified Public Accountants (AICPA).

Statements on Standards for Accounting and Review Services (SSARS) Statements issued by the american institute of certified public accountants (AICPA) that specifically relate to reviews and compilations.

Statistical sampling The use of random selection and probability theory to determine the size of a sample and to evaluate the results using this sample. Statistical sampling provides a measure of the sampling risk to assist an auditor to draw conclusions on the total population.

Statute of Limitations This sets out the period within which actions may be brought upon claims or within which rights may be enforced. As it pertains to tax returns, the statute of limitations is generally three years from the date a return is due or filed.

Statutory account Is an involuntary account, which is created by law rather than by business need. An example of a statutory account would be taxes.

Statutory audit An audit of a company as required by the Companies Act (1985), subject to small company exemptions. The auditors are required to report to the company's members on all accounts of the company, copies of which are laid before the company in general meeting. Companies with a turnover of not more than £350,000 (£250,000 for charitable companies) and gross assets of not more than £1.4 million may be exempt from the statutory audit. Companies with a turnover of £90,000 or less do not need to have any form of accountant's or auditor's report. Companies with a turnover of between £90,001 and £350,000 need a reporting accountant's audit exemption report.

Statutory auditor Is normally part of the internal audit function operating in one or more of the following areas: a. Review of the Accounting Systems and the related internal controls. Thus while the adequacy of the accounting systems is the responsibility of the Management, the Statutory Auditor is usually assigned the specific responsibility for reviewing the accounting systems and the related internal controls, as also monitoring their operations; b. Review of financial and operating information including identification, measurement, classification and reporting such information specifically enquiring into individual items including detailed testing of transactions, procedures and balances; and, c. Examination of the economy, efficiency and effectiveness of operations including non-financial controls.

Statutory books The books of account that the Companies Act (1985) requires a company to keep. They must show and explain the company's transactions, disclose with reasonable accuracy the company's financial position at any time, and enable the directors to ensure that any accounts prepared therefrom comply with the provisions of the act. They must also include entries from day to day of all money received and paid out together with a record of all assets and liabilities and statements of stockholding (where appropriate).

Statutory law Is law enacted by the legislative branch of government, as distinguished from case law or common law.

Statutory lien Is an involuntary lien, which is created by law rather than by contract. Statutory liens include tax liens, judgment liens, mechanic's liens, etc.

Statutory liquidity ratio (SLR) Is a ratio which every banking company shall maintain in the form of cash, gold or unencumbered approved securities, an amount which shall not, at the close of business on any day be less than such percentage of the total of its demand and time liabilities as the Reserve Bank may specify from time to time.

Statutory sick pay (SSP) A compulsory scheme operated by an employer. Payments are made to an employee for up to 28 weeks of absence as a result of sickness. There are two rates of statutory sick pay, the applicable level being determined by the employee's earnings. The two qualifying conditions for SSP are:

There must be a period of incapacity for work, there must be one or more qualifying days.

The first three days do not count and so it is only on the fourth consecutive day that an entitlement to SSP begins.

Steamship conference Is an agreement between multiple shipping companies to provide common freight rates. Some shipping lines will state that they are "non-conference", i.e., they charge an independent and likely lower rate.

Step lease Is type of lease that outlines or stipulates the expected annual increases in the tenant's base rent based on an approximation of what the landlord believes what the landlord's expenses may be.

Step-function cost An item of expenditure that when plotted on a graph against activity levels gives a stepped function; i.e. increments of cost are incurred as activity rises.

Stepped costs Is a cost that increases by a reasonably constant sum each time volume or activity increases by a predictable, constant, multiple. The smallest step costs are variable costs, which increase by a discrete amount each time output or activity increases by one unit. Larger steps will consist of what are, effectively, fixed costs over a particular range of output. Some costs increase, or decrease, in significant steps when output or activity passes certain limits. For instance, if a bus company regularly has more passengers on a route than can be carried by a single vehicle it may be necessary to use an additional bus. Running an additional bus will double the cost of operating on that route. Similarly, a manufacturing firm may have a policy of employing one supervisor for every ten production workers. In which case the firm will need one supervisor for 1–10 employees, two supervisors for 11–20 employees, and so on. So, if demand rises to the point where 21 production employees are required an extra supervisor must be employed. Costs that behave in this way are called stepped costs.

Stepped Up Basis Generally, the basis of property acquired by inheritence, bequest or device from a decendant is the fair market value of the property on the date of the decendant's death. Thus if the fair market value is more than the decedent's basis, a taxpayers basis in the property received is stepped-up.

Stewardship Is responsibility for taking good care of resources entrusted to one, e.g., boards of directors must show good stewardship towards the company for which they are a board member.

Stock 1. A fixed-interest security issued by the government, local authority, or a company in fixed units, often of £100 each. They usually have a redemption date on which the par value of the unit price is repaid in full. They are dealt in on stock exchanges at prices that fluctuate, but depend on such factors as their yield in relation to current interest rates and the time they have to run before redemption.

2. The name for an ordinary share.

3. The stock-in-trade of an organization. 4. Any collection of assets, e.g. the stock of plant and machinery owned by a company.

Stock budgets Budgets set under a system of budgetary control, which plan the levels of stocks of materials, work in progress, and finished goods both in volumes and values at various times throughout a budget period.

Stock Compensation Plan Fringe benefit that gives employees the option to purchase the employer's stock at a specified price during a specified period.

Stock control account Reflects the total amount or value of all stock items. The balance of each of the individual stock item ledger accounts or records must equal the total of the stock item list, which represents the amounts or value of the individual stock items obtained from the individual balances in the various subsidiary ledger accounts for each stock item. This subsidiary ledger is known as the stock item ledger.

Stock exchange (stock market) A market for the sale and purchase of securities, in which the prices are controlled by the laws of supply and demand. The first stock exchange was in Amsterdam, where in 1602 shares in the United East India Company could be traded. Their basic function is to allow public companies, governments, local authorities, and other incorporated bodies to raise capital by selling securities to investors. They perform valuable secondary functions in allowing those investors to buy and sell these securities, providing liquidity, and reducing the risks attached to investment. Stock markets were abolished after World War II in communistdominated states but with the collapse of communism many restarted. The major international stock exchanges are based in London, New York, and Tokyo.

Stock exchange automated quotations system (SEAQ) A computerized system used on the Stock Exchange to record the prices at which transactions in securities have been struck, thus establishing the market prices for these securities; these prices are made available to brokers through TOPIC. When a bargain is concluded, the details must be notified to the central system within certain set periods during the day.

Stock exchange automatic execution facility (SAEF) A computerized system used on the London Stock Exchange to enable a broker to execute a transaction in a security through an SAEF terminal, which automatically completes the bargain at the best price with a market maker, whose position is automatically adjusted. The price of the transaction is then automatically recorded on a trading report and also passes into the settlement system.The system has greatly reduced the administrative burden on brokers and market makers but has been criticized for eliminating the personal element between brokers and market makers on the floor of the exchange.

Stock exchange daily official list A record of all the bargains made on the London Stock Exchange. It also provides details of dividend dates, rights issues, prices, etc., of all listed companies. It is also known as the Official List.

Stock index A formalized screened listing of traded securities, e.g. the Dow Jones Industrial Average that tracks a portfolio of stocks.

Stock ledger The accounting book in which the movements of inventories are recorded. The stock ledger records the receipts and issues of material as well as the balance in hand, in terms of both material quantities and values.

Stock Option Right to purchase or sell a specified number of shares of stock at specified prices and times.

Stock out The circumstance that pertains when the balance of the physical stock of a particular commodity has been used and none remains in store.

Stock power Is a form that permits a Donor to provide the authority to change the name on a stock certificate from the Donor's name to the name of another party, such as a charitable organization, without using a "transfer agent". This form, together with the designated stock certificate and Letter of Authorization, given to the charitable organization will expedite the transfer of the Donor's stock certificate by the charitable organization's brokerage to expedite the sale and receipt of proceeds from the gift of securities.

Stock record The record in an inventory control system of movements in items of stock. The stock record may be made up of entries in the stock ledger, which records stock movements in both quantities and values, or on the bin cards, which record quantities only.

Stock Rights Stock rights are rights issued to stockholders of a corporation that entitle them to purchase new shares of stock in the corporation for a stated price that is often substantially less than the fair market value of the stock. These rights may be exercised by paying the stated price, may be sold, or may be allowed to expire or lapse. Stock rights are generally treated as stock dividends.

Stock sale Is where the equity price is assumed to include the operating assets and operating liabilities of the seller's business and not include the long term liabilities assumed. The long term liabilities assumed are shown as a separate line item and when added to the equity price results in the deal price. In those transactions indicated as an asset sale the equity price is assumed to include the operating assets.

Stock Split Increase in the number of shares of a company's common stock outstanding that result from the issuance of additional shares proportionally to existing stockholders without additional capital investment. The par value of each share is reduced proportionally.

Stock turnover period Is calculated: Long Term Disabilities X 100% / Cost of Sales.

Stock turns Is the number of times per year that the stock (raw material, wip & finished goods) is turned over in relation to the sales revenue of a given product. Calculation - Stock turns = Sales turnover of products / Value of raw material, wip & finished goods.

Stock watering The creation of more new shares in a company than is justified by its tangible assets, even though the company may be making considerable profits. The consequences of this could be that the dividend may not be maintained at the old rate on the new capital and that if the company were to be liquidated its shareholders may not be paid out in full.

Stockbroker An agent who buys and sells securities on a stock exchange on behalf of clients and receives remuneration for this service in the form of a commission.

Stockholders' equity In the USA, the ownership interest of stockholders in a corporation. It is the difference between the total assets and the total liabilities.

Stocktaking Is the process of counting and evaluating stock-in-trade, usually at an organization's year end in order to value the total stock for preparation of the accounts. In more sophisticated organizations, in which permanent stock records are maintained, stock is counted on a random basis throughout the year to compare quantities counted with the quantities that appear in the, usually, computerized records.

Stop loss order An order given by an investor to a broker to sell a financial instrument, commodity, etc., when its price falls to a specified level in order to limit loss.

Stop-or-go sampling Taking a sample from a population and checking after each sample item is drawn whether the sample supports a desired conclusion. Sampling ceases as soon as that conclusion is supported.

Storage Can be: a. a depository for goods, e.g. a stockroom or warehouse; b. the process of storing information in a computer memory or on a magnetic tape or disk; or c. an electronic memory device.

Stores Are provisions and supplies in inventory that are required for running an entity.

Straddle Any of a number of possible investment positions where the investor owns both a put and a call or protection from a drop in the market and a rise in the market. The put and call would have both the same exercise price and the same expiration date. An investor is long in a straddle if he buys a put and a call; he is short a straddle if he writes a put and a call.

Straight bond Is the most common debt security. All other bond types are variations of, or additions to standard straight bond features. An investor pays a single capital sum to receive interest payments, called coupons, until a fixed maturity date when the last coupon is accompanied by redemption of the bond's face value. The coupon is simply a fixed rate of interest - paid annually or semi-annually - on the principal sum or face/par value. The debt is of fixed maturity - the principal redemption date. The maximum term is 30 years, but 7-10 years is most common.

Straight Deductible In an insurance contract, a constant amount or percentage of value which the insured bears on every loss.

Straight-Line Depreciation Accounting method that reflects an equal amount of wear and tear during each period of an asset's useful life. For instance, the annual straight-line depreciation of a $2,500 asset expected to last five years is $500.

Straight-line depreciation method Allows an equal amount to be charged as depreciation for each year of the expected use of the asset. It is computed by dividing the adjusted basis of a property by the estimated number of years of remaining useful life.

Straight-Line Depreciation. Depreciation (also applies to amortization) where the amount for each period is equal. For example, annual depreciation on a $12,000 asset with a 10-year life would be $1,200 per year.

Straight-line method A method of calculating the amount by which a fixed asset is to be depreciated in an accounting period, in which the depreciation to be charged against income is based on the original cost or valuation, less the asset's estimated net residual value, divided by its estimated life in years. This has the effect of a constant annual depreciation charge against profits year by year. In some circumstances the net residual value is ignored.

Stranded plant Is a cost that has been incurred, but can not be reversed. Usually referred to as a sunk cost.

Strategic asset, In relation to the assets held by a legal entity, means an asset or group of assets that the entity needs to retain if the entity is to maintain the entity's capacity to achieve or promote any outcome that the entity determines to be important to the current or future well-being of the entity.

Strategic goal Is the milestone the organization aims to achieve that evolves from the strategic issues. They transform strategic issues into specific performance targets that impact the entire organization. They can be qualitative or quantitative. Dependent upon usage, GOALS are general in nature, while OBJECTIVES are specific, measurable and time-based. In some organizations, the meanings for GOAL and OBJECTIVE are reversed.

Strategic investment appraisal An appraisal of an investment decision based on wider grounds than that provided by a purely financial appraisal. It is also necessary to evaluate possible long-term strategic benefits and any intangible factors that may be relevant to the decision, particularly if advanced manufacturing technology is concerned.

Strategic management accounting A management accounting system organized so that it is capable of providing the information needed by management to help in making long-term strategic decisions rather than being limited to the more traditional approach of providing short-term costs. Strategic management accounting, for example, provides information that will assist in the pricing strategy for new products and decisions relating to the expansion of capacity.

Stratified sampling The division of a total population into strata or bands. The sample is then drawn from each stratum individually.

Strategic performance management Provides a detailed blueprint for turning corporate vision into reality - breaking down the things an entity needs to achieve as a business into real actions that can be measured.

Strategic planning Is the activity of defining what you want to accomplish in your business and then identifying the path that will allow you to reach your goal in the most efficient and sensible manner.

Stratify To arrange a population or a sample in distinct layers. Stratified sampling is used in auditing to select a greater percentage of accounts with high balances than of accounts with low balances.

Straw man Is a weak or imaginary opposition (as an argument or adversary) set up only to be easily confuted. Often done to create an environment for brainstorming from a certain starting point.

Strike Price Price of a financial instrument at which conversion or exercise occurs.

Stripped bond Is a bond that can be subdivided into a series of zero-coupon bonds.

Stumpage Refers to: a. Timber in standing trees; usually sold without the land at a fixed price per tree or per stump, the stumps being counted when the land is cleared. (NOTE: Only trees above a certain size are allowed to be cut by loggers buying stumpage from the owners of land); or, b. A tax on the amount of timber cut, regulated by the price of lumber.

Subchapter s Is a legal corporate entity organized under the United States Federal Tax Code that allows Subchapter S Corporations to distribute all income / loss proportionately to its shareholders, who then claim that income / loss on their personal income taxes; thereby avoiding the payment of corporate taxes.

Subject to opinion A qualification by an auditor stating that there was a material but not fundamental matter of uncertainty in the accounts being audited. The audit report in these circumstances would have been given 'subject to' any adjustments that may have been necessary had the scope of the work not been limited or had the outcome of an inherent uncertainty been known. This procedure was contained in the auditing standard 'The Audit Report', issued by the Auditing Practices Committee. This auditing standard has been replaced by the Auditing Practices Board's Statement of Auditing Standards titled 'Auditors' Reports on Financial Statements', which does not include the 'subject to' qualification.

Subject to Years ago there was a type of qualified audit opinion that was worded "In our opinion, subject to....." Auditors are no longer permitted to issue such opinions.

Subjective goodwill The goodwill of an enterprise calculated by deducting its net tangible assets from the net present value of its estimated future cash flows.

Subledger Is for the purpose of organizing revenue and expense transaction for only one account, e.g., For an individual salesperson, like a general ledger, the subledger has different default account types, each from a salesperson's perspective, not a company perspective. Thus, Due is due to the salesperson and Payable is payable by the salesperson.

Sublet, In real estate, refers to the leasing of space within a leased facility by the original lessee.

Subordinated debt Is debt over which senior debt takes priority. In the event of bankruptcy, subordinated debt holders receive payment only after senior debt claims are paid in full. There is a pecking order determining the sequence in which a company will pay off its debt instruments, subordinate (or junior) issues will not be repaid until unsubordinated (or senior) debt has been repaid in full.

Subordination Clause In real estate lending, a clause in a mortgage that allows it to become junior to subsequent liens.

Sub-prime credit cards Are credit cards offered to consumers with credit problems or no established credit; as opposed to prime cards for those with good credit ratings. Sub-prime cards do not offer as many benefits and possibly could be more costly.

Subrogation. The right of an insurer to substitute itself for the victim in recovering the amount of the loss from the party responsible for the loss. For example, you rent space in a warehouse. A worker accidentally sets fire to the building. The landlord collects from his insurance company but the insurer files a claim against your business.

Subscriber, In securities, is an entity that contributes (or promises to contribute) a sum of money to purchase securities. The term Subscriber encompasses all Non-Professional and Professional Subscribers.

Subscription, In securities, is an agreement to buy a new issue of securities.

Subsequent Event Material event that occurs after the end of the accounting period and before the publication of an entity's financial statements. Such events are disclosed in the notes to the financial statements.

Subsequent events affect the client and occur between the balance sheet date and issuance of the financial statements. Some such events provide additional evidence about conditions that existed at the balance sheet date, such as the bankruptcy of a customer with a history of financial difficulty. The financial statements are adjusted to reflect this evidence. Evidence about conditions that did not exist at the balance sheet date, such as fire that destroyed the client's plant after the balance sheet date, may be so significant as to require disclosure.

Subsidiary Is a company whose voting stock is more that 50% owned by another company.

Subsidiary ledger Is a group of subsidiary accounts the sum of the balances of which is equal to the balance of the related control account in the general ledger.

Subsidiary undertaking (group undertaking) An undertaking that is controlled by another undertaking (the parent or holding undertaking). The extent of the control needed to define a subsidiary is given in the Companies Act (1985). The financial statements of a subsidiary undertaking are normally included in the consolidated financial statements of the group.

Substance over form Is an accounting concept where the entity is accounting for items according to their substance and economic reality and not merely their legal form. This concept is one of the key determinants of reliable information. For most transactions there will be no difference, so no issue arises. In some cases however, the two diverge and the choice of how to present the transactions can give very different results. This difference occurs when an asset or liability is not recognized in the accounts even though benefits or obligations may result from the transaction, or oppositely.

Substantial Part of an Activity An identifiable piece or unit of a larger activity, such as a separate division or branch, or a separate product line of a business with several lines or divisions. Generally used in connection with the passive activity loss rules.

Substantiated Supported with proof or evidence.

Substantive Is reality, real rather than apparent, as seen by an unbiased observer and not just the official view of management.

Substantive tests Audit tests designed to check the completeness, ownership, existence, valuation, and disclosure of the information contained in the accounting records and financial statements of an organization being audited. These tests may include vouching, inspection, and analytical review.

Subsubsidiary A subsidiary undertaking of a company that is itself a subsidiary company.

Subvented Lease A special lease provided by vehicle or equipment manufacturers that make it more attractive than a lease offered through regular sources. In essence, the lease is subsidized by the manufacturer.

Subvention Is the provision of assistance or financial support such as an endowment or a subsidy from a government or foundation.

Successor auditor The auditor of a client for the current year when that client had another auditor in prior years. The auditor who is no longer the auditor of that client is the predecessor auditor.

Sufficiency (sufficient) A measure of the quantity of audit evidence. The independent auditor's objective is to obtain sufficient competent evidence to provide a reasonable basis for forming an opinion.

Sui Is either State Unemployment Insurance (tax) or State Unemployment Income.

Summary financial statement An abbreviated form of the annual accounts and report that, providing certain conditions are met, may be sent by listed companies to their shareholders instead of the full report. Summary financial statements were introduced by section 251 of the Companies Act (1985), which took effect from 1 April 1990.

Sum-of-the-digits method A method of calculating the amount by which a fixed asset is depreciated in an accounting period. The estimated life is expressed in years, and the digits for each year of its life are totalled. The proportion of the asset's cost or valuation less residual value to be written off as depreciation in a particular year is determined by the number of years remaining before the asset's removal from commission, expressed as a proportion of the sum of the years; the greatest amount is therefore written off in the early years of the asset's life. For example, for an asset with an estimated life of 5 years, the sum of the digits is 5 + 4 + 3 + 2 + 1 = 15. Thus 5/15 is written off in the first year, 4/15 in year 2, 3/15 in year 3, and so on. In some circumstances the net residual value is ignored.

Sum-of-the-years digits (SYD) Is the accelerated depreciation method in which a constant balance (cost minus salvage value) is multiplied by a declining depreciation rate.

Sundry account Is an account where miscellaneous items are recorded, e.g., SUNDRY RECEIVABLES represent miscellaneous receivables.

Sundry creditors Refers to companies or individuals to which money is owed.

Sundry debtor Is an entity from who amounts are due for goods sold or services rendered or in respect of contractual obligations. Also termed: debtor, trade debtor, and account receivable.

Sundry expenses Costs incurred as small items of expenditure, which do not lend themselves to easy classification under any other heading. Sometimes they refer to a specific area, such as sundry office expenses or sundry production costs.

Sundry shareholders Are a group of miscellaneous shareholders.

Sunk cost Is the cost expended that cannot be retrieved on a product or service.

Superannuation Is a. the act of discharging someone because of age (especially to cause someone to retire from service on a pension); or, b. a monthly payment made to someone who is retired from work.

Supervise Supervision is directing efforts of assistants in the audit and determining whether objectives were accomplished. Elements of supervision include instructing assistants, keeping informed of problems, reviewing work performed, and dealing with differences of opinion among firm personnel. The appropriate extent of supervision depends on the complexity of subject matter and qualifications of persons performing the work.

Supplier financing Is where the trade assists in meeting credit needs of a customer, e.g. a trade credit line may be negotiated to where a supplier may give 90 to 120 days to pay for the goods plus an interest charge.

Suppliers Provide goods or services to an audited entity. Sometimes called vendors.

Supply risk The inherent risk in limited recourse financing of a construction project that the raw materials necessary for the operation of the plant to be constructed may become unavailable.

Supporting documents Assist in making a case (prove a point or forward an argument) by providing additional depth and analysis for much of the case in question.

Suppressed inflation Means that a situation exists in which prices would rise — if government regulations did not establish artificial limits on prices, wages, etc.

Supranational Is transcending established national boundaries or spheres of interest (Example: A supranational company).

Surcharge Is a charge added on top of another charge for a specific service, product or purpose.

Surcharge liability notice A notice issued when a trader is late with a value added tax return or with the payment of the tax. The surcharge period is specified on the notice and it will run to the anniversary of the end of the period in which the default occurred. Any default in the liability notice period will result in a further notice extending the notice period to the anniversary of the end of the VAT period in which the second default occurred.

Surety bond Is a contract by which one party agrees to make payment on any default or the debt of another party.

Surplus advance corporation tax The advance corporation tax paid in an accounting period in excess of the maximum available for set-off against the current accounting period's gross corporation tax. In a group of companies the advance corporation tax can be surrendered by the parent company to a subsidiary, if 51% of the subsidiary company is owned by the parent company.

Surplus franked investment income The amount by which the franked investment income exceeds the franked payments in an accounting period.

Surplus Generally means any excess amount, but in finance it is the remainder of a fund appropriated for a particular purpose. In a corporation, surplus means assets left after liabilities and debt, including capital stock, have been subtracted.

Surrender value The sum of money given by an insurance company to the insured on a life policy that is cancelled before it has run its full term. The amount is calculated approximately by deducting from the total value of the premiums paid any costs, administration expenses, and a charge for the lifeassurance cover up to the cancellation date. There is little or no surrender value to a life policy in its early years. Not all life policies acquire a surrender value; for example, term assurance policies have no surrender value.

Surveillance Is close watch kept over someone or something.

Surviving Spouse This is a person whose husband or wife died during the tax year. A surviving spouse may file a joint return for the year in which the death occurred. In addition a joint return may be filed for the two succeeding tax years if during that time the surviving spouse: 1. Remains unmarried; and 2. Maintains as his home a household that is the principal place of abode during the entire tax year for a child for whom a dependency exemption may be claimed.

Sushi bond A bond issued in the euromarket by a Japanese-registered company in a currency other than yen but targeted primarily at the Japanese institutional investor market.

Suspended Losses Passive losses which are carried forward indefinitely until the taxpayer has passive income or there is an entire disposition of the activity. Also called carryover or carryforward losses.

Suspense account, In accounting, is an account that is used on a temporary basis for receipts, disbursements, or discrepancies until such time as the analysis is complete and they can be properly classified.

Sustainable growth rate (SGR) Shows how fast a company can grow using internally generated assets without issuing additional debt or equity.

SGR provides a useful benchmark for judging a company's appropriate rate of growth. A company with a low sustainable growth rate but lots of opportunities for expansion will have to fund that growth via outside sources, which could lower profits and perhaps strain the company's finances. Growth can be a major dilemma because with growth comes a spontaneously generated need for increased working capital. VentureLine calculates a Sustainable Growth Rate from the data entered into the Income Statement and Balance Sheet. The Sustainable Growth Rate is the rate at which the firm may grow the Stockholder's Equity Account (Net Worth) using only increases in Retained Earnings (Net Profit's contribution to retained earnings) to fund the growth. Growth beyond this amount will force the firm to obtain additional financing from external sources to finance growth.

Swap Financial contract in which two parties agree to exchange net streams of payments over a specified period. The payments are usually determined by applying different indices (e.g., interest rates, foreign exchange rates, equity indices) to a notional amount. The term notional is used because swap contracts generally do not involve exchanges of principal.

Swaps Is when one currency is temporarily exchanged for another, then the currency is held and exchanged later after a fixed period of time. To calculate the swap take the interest rate differential between the two underlying currencies, thus it may be used for speculative purposes to exploit anticipated movement in the interest rates.

Swaptions Are over-the-counter options on swaps.

Sweeping accounts Is when an entity zeros out a monetary asset account (takes the money) that does not meet an established mandatory monetary hurdle at which they will make a payment to the holder of that account, e.g., if a salesman does not make a certain amount of sales required over a time period, his company will not pay him commission on the sales that were made during that period and sweep his account balance to zero at the end of the time period.

Swift code, Within the context of international payment transactions, is a code issued by the Society for Worldwide Interbank Financial Telecommunication (SWIFT) that enables banks worldwide to be identified without the need to specify an address or bank number. SWIFT codes are used mainly for automatic payment transactions.

Swingline bank facility (swingline loan) A facility that enables a borrower to avail itself of funds at very short notice, usually on a same-day basis, often to cover shortfalls in other credit arrangements. It may form part of a multioption facility.

Swot analysis Is one of the most used forms of business analysis. A SWOT examines and assesses the impacts of internal strengths and weaknesses, and external opportunities and threats, on the success of the "subject" of analysis. An important part of a SWOT analysis involves listing and evaluating the firm's strengths, weaknesses, opportunities, and threats. Each of these elements is described:

1. Strengths: Strengths are those factors that make an organization more competitive than its marketplace peers. Strengths are what the company has a distinctive advantage at doing or what resources it has that is strategic to the competition. Strengths are, in effect, resources, capabilities and core competencies that the organization holds that can be used effectively to achieve its performance objectives.

2. Weaknesses: A weakness is a limitation, fault, or defect within the organization that will keep it from achieving its objectives; it is what an organization does poorly or where it has inferior capabilities or resources as compared to the competition.

3. Opportunities: Opportunities include any favorable current prospective situation in the organization's environment, such as a trend, market, change or overlooked need that supports the demand for a product or service and permits the organization to enhance its competitive position.

4. Threats: A threat includes any unfavorable situation, trend or impending change in an organization's environment that is currently or potentially damaging or threatening to its ability to compete. It may be a barrier, constraint, or anything that might inflict problems, damages, harm or injury to the organization.

A firm's strengths and weaknesses (i.e., its internal environment) are made up of factors over which it has greater relative control. These factors include the firm's resources; culture; systems; staffing practices; and the personal values of the firm's managers. Meanwhile, an organization's opportunities and threats (i.e., its external environment) are made up of those factors over which the organization has lesser relative control. These factors include, among others, overall demand, the degree of market saturation, government policies, economic condition, social, cultural, and ethical developments; technological developments; ecological developments, and the factors making up Porter's Five Forces (i.e., intensity of rivalry, threat of new entrants, threat of substitute products, bargaining power of buyers, and bargaining power of suppliers.)

Syndicate Is a group of investment bankers or banks that acts jointly, on a temporary basis, to, in the case of investment bankers, sell securities or to underwrite a new issue of bonds (syndicated capital), or, for the bank syndicate to loan money in a bank credit (syndicated credit).

Syndicated bank facility (syndicated loan) A very large loan made to one borrower by a group of banks headed by one lead bank, which usually takes only a small percentage of the loan itself, syndicating the rest to other banks and financial institutions. The loans are usually made on a small margin. The borrower can reserve the right to know the names of all the members of the syndicate. If the borrower states which banks are to be included, it is known as a club deal. A syndicated bank facility is usually a revolving bank facility. There is only one loan agreement.

Synergy Is the working together of two or more things to produce an effect greater than the sum of their individual effects. For example, in the context of mergers, cost synergy is the savings in operating costs expected after two companies, who compliment each other's strengths, join.

Synthetic lease Is a transaction that appears, from an accounting standpoint, as a lease, but as a loan from a tax standpoint; resulting in an off-balance sheet account of the financing and the tax benefits that accompany the financed asset.

Systems control and review file (SCARF) An embedded audit facility in a computer that consists of a program code or additional data provided by an auditor and incorporated into a computerized accounting system. The auditor designates files as SCARF or not and also specifies a monetary value threshold. All transactions posted to a SCARF file that are above the threshold are also written to a SCARF file, the contents of which can only be altered or deleted by the external auditors of the company.

Systems development controls The internal controls ensuring that the development of a computerized system is properly controlled. For example, segregation of duties should ensure that an employee involved in the development of a system should not usually be involved in testing the system

Systems-based audit An approach to auditing based on the concept that by studying and assessing the internal control system of an organization an auditor can form an opinion of the quality of the accounting system, which will determine the level of substantive tests needed to be carried out on the items in the financial statements. This approach is now less popular than formerly because it does not focus on audit risk. The risk-based audit is now generally considered to be more flexible, efficient, and effective.

Systrust engagements A cpa tests a business system for its ability to operate without material error and reports on its reliability.

T

T&E Is an acronym for Travel & Entertainment.

T&M Is Time and Materials.

T&R, Among others, can mean: Technical & Research or Termination & Recoupment.

T/t Is a payment or financial transaction designation meaning "Telegraphic Transfer" of funds.

Table A A model set of articles of association that a company may adopt in full or in part, as set out in the Companies Act (1985).

T account A common accounting form in the enlarged shape of the capital letter T. The left-hand side represents the debit side of an account and the right-hand side the credit. Entries to the T account are made following the debit and credit rules.

Tag-along Is to go along with.

Tag-along rights Is a contractual obligation used to protect a minority shareholder (usually in a venture capital deal). Basically, if a majority shareholder sells their stake, then the minority shareholder has the right to join the transaction and sell their minority stake in the company. Also referred to as co-sale rights.

Tainted accounts receivable Is receivables that are considered to be legally suspect due to acts of fraud, misuse, or abuse.

Take-Out Also know as a permanent loan commitment, it's a promise by a lender to replace a construction loan with a permanent one.

Takeover bid (offer to purchase) An offer made to the shareholders of a company by an individual or organization to buy their shares at a specified price in order to gain control of that company. In a welcome takeover bid the directors of the company will advise shareholders to accept the terms of the bid. This is usually known as a merger. If the bid is unwelcome, or the terms are unacceptable, the board will advise against acceptance. In the ensuing takeover battle, the bidder may improve the terms offered and will then usually write to shareholders outlining the advantages that will follow from the successful takeover. In the meantime bids from other sources may be made or the original bidder may withdraw as a result of measures taken by the board of the target company. In an unconditional bid, the bidder will pay the offered price irrespective of the number of shares acquired, while the bidder of a conditional bid will only pay the price offered if sufficient shares are acquired to provide a controlling interest.

Takeover Refers to one company (the acquirer) purchasing another (the target). Such events resemble mergers, but without the formation of a new company.

Tangible Asset Assets having a physical existence, such as cash, land, buildings, machinery, or claims on property, investments or goods in process.

Tangible book value Is different than book value in that it deducts from asset value intangible assets, which are assets that are not hard (e.g., goodwill, patents, capitalized start-up expenses and deferred financing costs).

Tangible Normally refers to assets that can be held or seen and that are capable of being appraised at an actual or approximate value (e.g. inventory, land & buildings, etc.).

Tango sheets Is a not often used slang term refering to a document that compares forecasted financial data to actual financial performance for the purposes of illegally adjusting the reported financial data to more closely match the prior forecasted performance.

Tap stock A gilt-edged security from an issue that has not been fully subscribed and is released onto the market slowly when its market price reaches predetermined levels. Short taps are short-dated stocks and long taps are long-dated taps.

Taper relief A tax relief that can be set against capital gains made on disposals of assets after 6 April 1998. The amount of taper relief depends on the type of asset that has been sold and the length of time the asset had been held. For example, the disposal of a business asset that had been held for five years would be subject to business-asset taper relief, resulting in 62.5% of the gain being charged to capital gains tax. If the same asset had been held for ten years 25% of the gain would be charged. A disposal of non-business assets results in a larger proportion of the gain being charged to capital gains tax. For example, 85% of the gain would be charged on a non-business asset that had been held for five years; this is reduced to 60% of the gain being charged for non-business assets held for ten years. Assets acquired before 17 March 1998 qualify for an additional year when calculating taper relief.

Tare weight Is the weight of packing container and packaging material without the weight of the goods contained therein.

Target costing Is a disciplined process for determining and realizing a total cost at which a proposed product with specified functionality must be produced to generate the desired profitability at its anticipated selling price in the future.

Tariff, ad val orem Is a tariff determined as a percentage of the value of the goods.

Tariff, Usually, a country's tax on imports. May sometimes refer to the rate of tax; and, is used interchangeably with the term "duty".

Tax allowance A deduction, e.g. The personal allowance, from the income of an individual, made in calculating the taxable income.

Tax assessment A schedule issued by the Board of Inland Revenue showing a calculation of a taxpayer's liability to income tax. The income sources are identified separately on the tax assessment and an individual could receive several tax assessments for each fiscal year, depending on the number of different sources of income for the year. These assessments can be based on estimated figures, in which case the schedule is known as an estimated assessment.

Tax base The specified domain on which a tax is levied, e.g. an individual's income for income tax, the estate of a deceased person for inheritance tax, the profits of a company for corporation tax.

Tax bracket Figures between which income is subjected to a specific rate of tax. For 1999-2000 taxable income between £ 1500 and £28,000 is taxed at the basic rate of income tax of 23% (to be reduced to 22% in April 2000). Above £28,000 is the higher-rate tax bracket.

Tax Charge levied by a governmental unit on income, consumption, wealth, or other basis.

Tax code 2. The body of tax law applicable in a country, in which the tax law is codified rather than laid down by statute.

Tax Credit for the Elderly and Disabled Taxpayers age 65 or older or those under 65 who are retired with permanent and total disability are eligible to claim a credit to reduce the amount of their tax liability. It is designed primarily to benefit those individuals who receive small amounts of retirement income. Each taxpayer is allocated an initial base amount based on his or her filing status determining the credit. The base amount is then reduced by the amount of nontaxable income, or is phased out for taxpayers whose adjusted gross income exceeds certain levels.

Tax credit The tax allowance associated with the dividend paid by a company before 1 April 1999. Advance corporation tax was paid at a rate of 20/80 of a dividend payment when the dividend is paid. The shareholder was given allowance for the tax paid at source by the tax credit, at the same rate, 20/80, for 1998-99; i.e. a dividend of £80 received by the shareholder had an associated tax credit of £20. For basic-rate taxpayers there was no further tax to pay. For higher-rate taxpayers the difference between the tax credit rate, 20%, and the higher rate, 40%, was due on the higher-rate tax assessment.

Tax Deferred A term that indicates no tax is currently due on the transaction or income received. Instead, tax is due at a later date when the transaction is closed. Earnings in an IRA account are tax deferred until you retire and the income is distributed to you. A tradein is a tax deferred transaction. You report no gain until you sell the property received in the tradein.

Tax effect method Is where, irrespective of when is a tax payable, its effect should be recognized in the year in which the relevant income has been recorded.

Tax equivalent yield Is the yield that must be offered before factoring in taxes so that an investment pays off a certain after-tax yield. This measure is often necessary to compare taxable and tax-free investments, since tax-free issues tend to have lower pre-tax yields due to the fact that the investment's proceeds will not be reduced by taxes. Tax equivalent yield is equal to required after-tax yield divided by (1 minus the tax rate).

Tax exempt special savings scheme (TESSA) A savings scheme in which interest payments are not subject to tax. Payments are made to a bank or building society by an individual within the specified limits, £3000 maximum in year 1 and £ 1800 in subsequent 12-month periods, with an overall maximum of £9000, and are held on deposit. Provided no withdrawals are made during a five-year period the resulting interest is taxfree. No individual can have more than one TESSA and TESSAs cannot be shared. From 6 April 1999 no new TESSAs may be opened, following the introduction of the individual savings account.

Tax harmonization The process of increasing the compatibility of various taxation systems by limiting the variations between them. The main areas of difference in taxation are the tax base and the rates of tax applicable. There is often strong resistance to tax harmonization between independent states as, by setting limits within which the tax rates can be set, the authority of individual governments is eroded. The level of taxation is often a cornerstone of government policy and if harmonization is to succeed there would have to be an agreement to follow the limits set centrally; this would impinge on the sovereignty of individual governments.

Tax haven A country or independent area that has a low rate of tax and therefore offers advantages to wealthy individuals or to companies that can arrange their affairs so that their tax liability falls at least partly in the lowtax haven. In the case of individuals, the cost of the tax saving is usually residence in the tax haven for a major part of the year. For multinational companies, an office in the tax haven, with some real or contrived business passing through it, is required. Monaco, Liechtenstein, the Bahamas, and the Cayman Islands are examples of tax havens.

Tax invoice A detailed value added tax invoice that must be provided by a taxable person to another taxable person when the taxable supply is made for £100 or more. The tax invoice must show:

The supplier's nae, address, and VAT registration number,

The tax point and invoice number,

The name and address of the customer,

A description of the transaction and the goods supplied,

The amount of VAT and the amount excluding VAT.

A less detailed invoice is required for a supply of less than £100.

Tax loss carry forward/backward Is a tax benefit that lets a company or individual to deduct losses in order to reduce a tax liability.

Tax payable method Is where the tax expense is equal to the provision for taxes payable in a particular period and deferred income tax is not recognized.

Tax period The period covered by a value added tax return, usually three calendar months. The VAT return should be completed and sent to the Board of Customs and Excise within one month of the end of the tax period.

Tax planning The arrangement of a taxpayer's affairs, in accordance with the requirements of the tax legislation, in order to reduce the overall charge to tax.

Tax point The date on which goods are removed or made available to a customer or the date on which services to a customer are completed. The tax point determines the tax period for which the output tax must be accounted for to the Board of Customs and Excise.

Tax rebate A repayment of tax paid. A repayment claim must be made and approved by an Inspector of Taxes and the refund due to the taxpayer will be made by the Collector of Taxes following the Inspector's instructions.

Tax return A form upon which a taxpayer makes an annual statement of income and personal circumstances enabling claims to be made for personal allowances. An income tax return also requires details of capital gains in the year. The onus is on the taxpayer to provide the Inland Revenue with the appropriate information even if the taxpayer receives no tax return. The taxpayer can choose to assess their own liability or have the Inland Revenue calculate the tax, if the return is completed and sent in by 30th September, following the end of the fiscal year.

Separate returns are required for inheritance tax purposes and by the Board of Customs and Excise in respect of VAT and excise duties.

Tax Shelter Arrangement in which allowable tax deductions or exclusions result in the deferral of tax on income that would otherwise be payable currently.

Tax system The means by which taxes are raised and collected in accordance with the tax legislation. tax tables Tables issued by the Board of Inland Revenue to employers to assist them in calculating the tax due from their employees under the pay as you earn system. The tables are provided either for weekly or monthly payments. In practice, most employers now calculate salaries, wages, and tax deductions by computer, using a program into which the tax tables are incorporated.

Tax treaty An agreement between two countries, identifying the treatment of income, profits, or gains that are subject to tax in both countries. The amount of double taxation relief will be specified in the treaty.

Tax week any of the series of weeks starting 6 April, the beginning of the tax year. The first tax week ends on 13 April, the second ends on 20 April, etc.

Tax Year The period used to compute a taxpayer's taxable income is tax year. It is an annual period that is either a calendar year , fiscal year or fractional part of a year for which the return is made.

Taxable income Is that income that is reported to the government for the purposes of calculating income taxes. Taxable income normally is not aligned with the financial income reported within financial statements.

Taxable person An individual, partnership, limited company, club, association, or charity as defined by the value added tax legislaton. Value added tax is charged on taxable supplies made by taxable persons in the course or furtherance of a business.

Taxable Refers to goods or funds subject to taxation.

Taxation A levy on individual or corporate bodies by central or local government in order to finance the expenditure of that government and also as a means of implementing its fiscal policy. Payments for specific services rendered to or for the payer are not regarded as taxation. An individual's income is taxed by means of an income tax, while corporations pay a corporation tax. Capital profits are taxed by means of a capital gains tax while gifts, made during an individual's lifetime or on death, are taxed by means of an inheritance tax.

Tax-deductible Denoting an amount that can be deducted from income or profits, in accordance with the tax legislation, before establishing the amount of income or profits that is subject to tax.

Tax-effective Denoting a procedure that is in accordance with the tax legislation and results in a reduction in the tax charge.

Tax-free Denoting any payment, allowance, benefit, or other amount of income that is not subject to taxation.

Technological risk The inherent risk in limited recourse financing of a construction project that a newly designed plant will not operate to specification.

Telegraphic transfer (TT) A same-day method of transferring funds from one party to another.

Temporal method A method of converting a foreign currency involved in a transaction in which the local currency is translated at the exchange rate in operation on the date on which the transaction occurred. If rates do not fluctuate significantly, an average for the period may be used as an approximation. Any exchange gain or loss on translation is taken to the profit and loss account. This contrasts with the closing rate or netinvestment method of translation, which uses the exchange rate ruling at the balance-sheet date for translation and takes exchange differences to reserves. Statement of Standard Accounting Practice 20, Foreign Currency Translation, allows either method to be adopted.

Temporary diminution in value A fall in the value of an asset that is only expected to be for the short term. Under historical cost accounting, no adjustments are made for temporary diminutions (unless they become permanent).

Tenancy at Will The occupancy of property at the will of the owner. The agreement may be written or oral, but the tenant may leave at any time without liability and the owner can evict the tenant at any time.

Tenancy-in-Common Co-ownership of property. In a valid tenancy-in-common, a deceased co-owner's title passes to his or her heirs without being included in the estate of the deceased co-owner.

Tender bonds A guarantee given by a company that it will not withdraw from a contract, if it is awarded, after having submitted a tender.

Tender panel A group of banks forming a panel to tender competitively to lend money to a company.

Tenor The time that must elapse before a bill of exchange or promissory note becomes due for payment, as stated on the bill or note.

Ten-year charge An inheritance tax charge made every ten years on certain discretionary trusts. As a discretionary trust does not attach to the life of an individual there is no inheritance-tax charge on passing through the generations. To compensate for this a ten-year charge, calculated at 30% of the lifetime rate, is assessed, so that a full charge is made every 33.33 • years. Assets are valued at open-market value at the tenth anniversary of the trust after 31 March 1984, and every ten years thereafter. The current rate is 6%, being 30% of the current lifetime rate of 20%.

Term bonds Are bonds whose principal is payable at maturity. Sometimes referred to as bullet-maturity bonds or bullet bonds.

Term Contracting A technique in which a source of supply is established for a specified period of time. The contract often has an estimated or minimum quantity.

Term debt, As in Term Bonds, is debt that mature in one lump sum at a specified future date. Term debt is usually carried as one type of long-term debt.

Term endowment Are endowments with time restrictions required by the donor such as a restriction that the income from the endowment may not be utilized until a future period or a specific date for condition is met.

Term Insurance A type of life insurance issued for one or more years specified in the contract. As opposed to whole life, the policy does not build any cash value.

Term loan Is a bank loan, typically with a floating interest rate, for a specified amount that matures in between one and ten years and requires a specified repayment schedule.

Term The life of a contract, agreement, loan, etc.

Terminal bonus An additional amount of money added to payments made on the maturity of an insurance policy or on the death of an insured person, because the investments of the insurer have produced a profit or surplus. Bonuses of this kind are paid at the discretion of the life office and usually take the form of a percentage of the sum assured.

Terminal value, When used in a discounted cash flow valuation, the cash flow is projected for each year into the future for a certain number of years, after which unique annual cash flows cannot be forecasted with reasonable accuracy. At that point, rather than attempting to forecast the varying cash flow for each individual year, one uses a single value representing the discounted value of all subsequent cash flows. This single value is referred to as the terminal value.When a firm's cash flows grow at a "constant" rate forever, the present value of those cash flows can be written as: Value = Expected Cash Flow Next Period / (r - g)where, r = Discount rate (Cost of Equity or Cost of Capital) g = Expected growth rate. This "constant" growth rate is called a stable growth rate and cannot be higher than the growth rate of the economy in which the firm operates. While companies can maintain high growth rates for extended periods, they will all approach "stable growth" at some point in time. When they do approach stable growth, the valuation formula above can be used to estimate the "terminal value" of all cash flows beyond.

Terminal-loss relief Relief for a loss made by a business or profession during the last 12 months of trading. The business or profession must be permanently discontinued. The loss of the last 12 months can be set against the profits of the three years prior to the final tax year, taking the most recent year first. Terminal-loss relief is also available for companies. The trading loss arising in the accounting period in which the trade ceases may be carried back and offset against the profits of the three years ending immediately before the commencement of the final period of trading.

Test A sample from a population to estimate characteristics of the population.

Test count As part of inventory audit procedures auditors normally observe the client's employees counting physical inventory. A test count is inventory counted by the auditors to check the client's count.

Test data Data used by an auditor in computer processing to check the operation of an organization's computer programs. The main use of test data is in conducting compliance tests on application controls; for example, to check that batch totals are being correctly produced.

Test Data is run through a computer program to test the software. Test data can be used to test compliance with controls in the software.

Test of controls (tests of the operating effectiveness of internal controls) Auditors evaluate the design of controls, then determine if the controls are in operation. In order to rely on the controls they must also obtain evidence as to whether the controls are operating effectively.

Test of detail Direct tests of financial statement balances (substantive audit procedures) that are not analytical procedures. If tests of details are performed as tests of controls as well as substantive tests they are "dual-purpose" tests.

Testimony Is evidence given by a competent witness under oath.

Thin capitalization A form of company capitalization in which the capital of a company consists of too few shares and too much loan stock in the view of the tax authority. Some countries reserve the right in such cases to treat some of the interest on the loan stock as if it were a dividend, thus denying the right to a tax deduction on the interest payment.

Thin market A market in which the price of the underlying commodity, currency, or financial instrument may change if sizable transactions are carried out.

Third party Is someone other than the principals directly involved in a transaction or agreement.

Third party recovery Normally refers to delinquent accounts receivable recovered by a collection agency for a fee.

Three percent (3%) rule Is a rule used in vesting pension plan benefits. The participant's accrued benefit must be at least equal to 3% of the participant's normal projected retirement benefit for each year of participation, with a maximum of 100% after 33 1/3 years of participation.

Three-column cash book A cash book in which details of discounts allowed and discounts received are included in addition to receipts and payments made. Periodically these totals will be posted to the discounts allowed and received accounts, respectively. The approach to short-term decision making in manufacturing in which all conversion costs are treated as though they were fixed and products are ranked if a particular constraint or scarce resource exists. Decisions are made using the throughput accounting ratio (TAR) as follows:

Return per factory hour/cost per factory hour,

Where return per factory hour =

(sales price - material cost)/hours on scarce resource;

Cost per factory hour =

Total factory cost/total available hours of constraint through adequate planning and supervision.

Ti iCould mean, among others, Total Income or Tenant Improvements.

Tic Is Total Invested Capital.

Tic/ebit Is one of the earnings multiples ratios used in determining company value.

Tick marks In audit work papers are footnotes represented by a symbol instead of by a number. They indicate procedures that have been carried out on specific items in the work papers.

Tiered Entities Partnerships or trusts or S corporations invested in other partnerships or trusts or S corporations.

Till roll Is a roll of paper on which the separate amounts of money paid for goods are recorded in a retail shop's cash register.

Time card (clock card) A card on which is recorded the time spent by an employee at the place of work or the time spent on a particular job. The card is usually marked by mechanical or electronic means by recording the starting and ending times, enabling the elapsed time to be calculated.

Time deposit Is a bank deposit that can be withdrawn only after a set period of time or with prior notice, e.g. a certificate of deposit (CD).

Time of supply The date on which goods are removed or made available to a customer or when services for a customer are completed, i.e. the tax point. Goods on sale or return are treated as supplied on the date of adoption by the customer or 12 months after despatch, whichever is the earlier. Continuous services paid for periodically are charged to tax on receipt of payment or issue of each tax invoice, whichever is the earlier.

Time period concept Provides that accounting take place over specific time periods known as fiscal periods. These fiscal periods are of equal length, and are used when measuring the financial progress of a business.

Time sheet A form on which is recorded the employee time or machine time spent on each activity during a period. It is used for costing jobs, operations, or activities.

Time to market (TTM) Is the length of time it takes to develop a new product from an early initial idea for a new product to initial market sales. Precise definitions of the start and end point vary from one company to another, and may vary from one project to another within the company.

Time value of money Is the idea that a dollar today is worth more than a dollar in the future, because the dollar received today can earn interest up until the time the future dollar is received.

Times interest earned (TIE) Measures the extent to which operating income can decline before the firm is unable to meet its annual interest costs. The TIE ratio is used by bankers to assess a firm's ability to pay their liabilities. TIE determines how many times during the year the company has earned the annual interest costs associated with servicing its debt. Normally, a banker will be looking for a TIE ratio to be 2.0 or greater, showing that a business is earning the interest charges two or more times each year. A value of 1.0 or less suggests that the firm is not earning sufficient amounts to cover interest charges.

Times interest earned Income before interest and taxes divided by interest expense.

Timing of Tests of Control The auditor must perform tests of controls over a period of time that is adequate to determine whether, as of the date specified in management's report, the controls necessary for achieving the objectives of the control criteria are operating effectively.

To date Is prior to the current date.

Tolerable Deviation rate is the maximum rate of deviation from an internal control that will allow the auditor to place the planned reliance on that control.

Tolerable misstatement When planning a sample for a substantive test of details, the auditor considers how much monetary misstatement may exist without causing the financial statements to be materially misstated. This maximum misstatement is called tolerable misstatement for the sample.

Tombstone An advertisement in the financial press giving brief deals of the amount and maturity of a recently completed bank facility. The names of the lead managers are prominently displayed, as well as the co-managers and the managers. It is customary for the borrower to pay although he or she receives little benefit from the advertisement.

Top down Is a concept of analyzing a subject, such as costs or revenue, starting from the highest level working towards the bottom.

Top-down budgeting Is where budgets are created by starting from the highest level working towards the bottom using parametric relationships. A monetary value is placed on an individual unit (product, service, materials, and labor hour). An estimate of the number of units required is then converted to currency by multiplying the quantity of units by the unit price.

Top-line Of a company is its gross sales, or revenue figure.

Total asset turnover Measures management's efficiency in managing all of a firm's assets - specifically the generation of revenues from the firm's total investments in assets. This ratio is extremely important in high asset firms such as manufactures and telecommunications companies. Generally, the higher this ratio as compared to like companies or the industry :

The smaller the investment required to generate sales, thus the more profitable the firm.

Indicates the firm has less money tied up in fixed assets for each dollar of sales revenue.

Total assets Is the total of all assets; both current and fixed.

Total cost of ownership (TCO) Is a model developed by Gartner Group to analyze the direct and indirect costs of owning and using hardware and software. Managers of enterprise systems use various versions of TCO to lower costs while increasing the benefits of information technology deployments. The TCO includes: original cost of the computer and software, hardware and software upgrades, maintenance, technical support, and training. Most estimates place the TCO at about 3 to 4 times the actual purchase cost of the PC.

Total cost of production Total costs The sum of all the expenditure incurred during an accounting period, either within an organization, on a product, or on a process. It is often convenient to analyse the total costs into fixed costs and variable costs.

Total current assets Is total of cash & equivalents, trade receivables, inventory and all other current assets.

Total current liabilities Is the total of notes payable-short term, current maturities-LTD, trade payables, income taxes payable, and all other current liabilities.

Total Gain Excess of the proceeds realized on the sale of either inventory or noninventory goods.

Total income The income of a taxpayer from all sources. This is often referred to as statutory total income, which consists of income from sources based on the income of the current year and income from other sources based on income of the preceding year. This artificial concept is used to calculate a person's income tax for a given year.

Total liabilities & net worth Is the sum of all liability items and Net Worth.

total profits Profits chargeable to corporation tax (PCTCT), including profits from trading, property, investment income, overseas income, and chargeable gains, less charges.

Total quality management (TQM) Is a structured system for satisfying internal and external customers and suppliers by integrating the business environment, continuous improvement, and breakthroughs with development, improvement, and maintenance cycles while changing organizational culture.

Total standard cost The total standard production cost plus the standard cost allowance for the non-production overhead.

Total standard production cost The total of standard direct materials cost, standard direct labour cost, the standard fixed overhead cost, and the standard variable overhead cost.

Total standard profit The difference between the sales at standard selling prices and the standard overhead cost of these sales.

Trace Follow a transaction through the steps of the system.

Traceable, In accounting, is to discover by going backward over the transactions (evidence) step by step establishing a "paper-trail" for a transaction. Non-traceable is where the "paper-trail" of a transaction is broken or non-existent.

Trade Date Date when a security transaction is entered into, to be settled on at a later date. Transactions involving financial instruments are generally accounted for on the trade date.

Trade debtors Represent amounts of money owed by customers who have purchased goods/services from the company.

Trade discount Is a producer discount given to retail trade members to assist them in increasing sales of the producer's product.

Trade draft Is a draft addressed to a commercial enterprise.

Trade exchange Is a barter system where people or companies trade goods and services without the use of money.

Trade name Is a distinctive name used to identify a product or company and build recognition. Many corporations; e.g. Coca Cola, Ford, IBM, etc.; aggressively protect their trade names within the market.

Trade payable, Also known as an account payable, is an amount owed to a creditor for goods and services received.

Trade receivables (NET) Are all accounts from trade, net of allowance for doubtful accounts.

Trade reference A reference concerning the creditworthiness of a trader given by another member of the same trade, usually to a supplier. If a firm wishes to purchase goods on credit from a supplier, the supplier will usually ask for a trade reference from another member of the same trade, in addition to a banker's reference.

Trade spending Is that marketing expense directed towards brand building, e.g. promotional allowances, slotting, and advertisements. Total expenditure often represents 20-25% or more of total sales and is a significant expenditure for any size company. Managing this investment more wisely and reducing any fraction of a percentage of these dollars is vital.

Trademark Is a formally registered symbol identifying the manufacturer or distributor of a product.

Trading account The part of a profit and loss account in which the cost of goods sold is compared with the money raised by their sale in order to arrive at the gross profit.

Trading concern Is an entity that derives its products for sale, thereby revenue, through purchasing products for sale from other producers / manufacturers for resale to their customer base.

Trading profit Is that profit earned from the short-term trading of securities that were held for less than one year. Such profit is usually subject to tax at regular income tax rates.

Trailing, In time periods, is the most recently completed time period. For example, trailing twelve months would be the twelve-month period which ended on the final day of the last month.

Tranches Are related securities that are offered at the same time but have different risk, reward, and/or maturity.

Transaction An external event (e.g. purchase or sale) or internal event (e.g. depreciation of an asset) that gives rise to a change affecting the operations or finances of an organization.

Transaction analysis Is coupled with data event analysis. Transaction analysis looks at the data carriers which move data and information around the firm. Some of these transactions may be externally generated and some are internally generated.

Transaction drivers Are used to count the frequency of an activity, i.e., the number of times an activity is performed.

Transaction exposure, In foreign exchange, is the possibility of incurring exchange gains or losses on transactions already entered into and denominated in a foreign currency. It is typified by real exchange gains or losses and mixes retrospective and prospective views. It is short-term in nature.

Transaction Is an event or happening that changes financial position and/or earnings.

Transfer credit risk The credit risk that arises, especially on long-term contracts, as a result of a foreign debtor's inability to obtain foreign currency from the central bank at the appropriate time. This may occur even when the debtor is able and willing to pay.

Transfer of a going concern The disposal of a business by a registered trader under value added tax regulations to another VAT-registered trader on which VAT is not charged. This results in no output tax for the vendor and no input tax for the purchaser.

Transfer price Is the price charged by an individual entity in a multi-entity corporation on transactions among the entities involved.

Transferable loan facility (TLF) A bank loan facility that can be traded between lenders, in order to reduce the credit risk of the bank that provided the loan. It is a form of securitization but can have an adverse effect on relationship banking.

Transferee Liability A person may be held liable for another taxpayer's delinquent taxes if: 1. The transferee received assets of the transferor-taxpayer; and 2. The transferor was insolvent at the time or was rendered insolvent by that transfer or related series of transfers. However the insolvency requirement does not apply to gift taxes. The transferee is only liable to the extent of the value of the property received from the transferor.

Transferred Basis A transferred basis is the basis of property in the hands of a transferor, donor or grantor. In this sense a prior owner's basis in the property is transferred to the taxpayer. transferred basis occurs in the following transactions: gifts, transfers in trusts, certain transfers to controlled corporations, contributions to partnerships and liquidating distributions from a corporation.

Translation exposure, In foreign exchange, is to convert the results of foreign operations from the local currency to the home currency in the areas of paper exchange gains or losses; it is retrospective and short-term in nature.

Transparency, In economics, (1) Principle adopted in the General Agreement on Tariffs and Trade that governments must make their rules, regulations, and practices open and accessible to the public and other governments. (2) General Agreement on Trade in Services requirement that its member states publish their regulations affecting trade in services, that they notify the Council for Trade in Services of any relevant changes, and that they respond promptly to requests for information from other members.

Transportation out Is Part of cost of selling therefore included as selling expense, i.e. part of SG&A.

Transportaton in Is Freight costs paid by the buyer therefore added to the costs of merchandise, i.e. part of inventory cost.

Transposition error Is The unintentional exchange of two elements of an ordered list with all others staying the same. A transposition is therefore a permutation of two elements. For example, the swapping of 2 and 5 to take the list 123456 to 153426 is a transposition. In this example, if the newly ordered list of 153426 was unintentional, it would be commonly called a transposition error. In accounting, an error in copying a number from one place to another is a transposition error.

Treasurer A person who is responsible for looking after the money and other assets of an organization. This may include overseeing the provision of the organization's finances as well as some stewardship over the way in which the money is spent.

Treasury bill (t-bill) Is a government security that matures in one year or less. They are zero-coupon bonds that are sold at a discount of the par value to create a positive yield to maturity. Treasury bills are considered by many the most risk free investment. Treasury Bills are commonly issued with maturity dates of 91 days, 6 months, or 1 year.

Treasury Bond Long-term obligation that matures more than five years from issuance and bears interest.

Treasury certificate Is A U. S. Treasury security usually issued at par with a specified rate of interest and a maturity of one year or less. It is issued payable to the bearer and sold in minimum amounts of $l0,000.

Treasury cycle Is the timing and frequency of the various maturities or treasury instruments; transactions include those related to financing the operations of the business (e.g. issuance of capital stock or long-term debt).

Treasury Inflation Protection Securities (TIPS) These are treasury bonds where the principal is indexed to the CPI. The total yield is made up of current interest payments and semi-annual CPI adjustments to principal. While only the interest is paid, both portions are taxable. Because of the CPI adjustment, the interest rate is relatively low.

Treasury Stock is stock of the corporation that has been issued and later reacquired. It is not an asset. It is a reduction of stockholders' equity. Treasury stock can be recorded at either its cost or its par value.

Trend analysis An analysis of the change in something over time. Analytical procedures, which compare financial statement ratios of different years, are an example of trend analysis.

Treasury stock Is stock reacquired by the issuing company and available for retirement or resale. It is issued but not outstanding. It cannot be voted and it pays or accrues no dividends. It is not included in any of the ratios measuring values per common share.

Trend analysis Is the analysis of changes over time through the use of analytical techniques, such as time series analysis, to discern trends.

Trial balance Is a listing of the accounts in your general ledger and their balances as of a specified date. A trial balance is usually prepared at the end of an accounting period and is used to see if additional adjustments are required to any of the balances. Since the basic accounting system relies on double-entry bookkeeping, a trial balance will have the same total debit amount as it has total credit amounts.

Triple bottom line (TBL) Is a metric for a corporation's social, environmental, and economic performance. TBL is the latest series of buzz words to describe business involvement in sustainability. TBL is all about dropping the financial bottom line as a meaningful indicator of where you stand in the market place and replacing it with a bottom line that properly acknowledges the interplay of the social economic and environmental dimensions of our lives.

Triple net (NNN) Is a lease that includes on top of the basic rent, a share of the real property taxes, insurance, and maintenance. "Triple-net-leases' are standard in commercial property leases in shopping centers and malls. Usually done under a limited partnership, resulting in lower risk for investors.

Triple p Is a productivity model wherein the interrelationship between productivity, profitability and performance, as well as, effectiveness and efficiency are plotted in a schematic view where the main difference between these five terms can be captured.

Troubled Debt Restructuring Agreement between debtor and creditor which amends the terms of a debt that has little chance of being paid in accordance with its contractual terms. The agreement may involve the transfer of assets in full or partial satisfaction of the debt.

True and fair view Is one of the most prominent principles of accounting. It suggests that an enterprise should provide a true and fair view about its financial conditions and operating results. The concept of true and fair view does not mean absolute truth about enterprises. Financial statements are a product of management's judgments and estimates. The principle of true and fair view requires comparative truth about the enterprises' picture. True and fair view is rather defined operationally; it is thought to be accomplished by complying with all other lower accounting principles.

True value Is the amount that a buyer is finally willing to pay.

Trueblood report a report, *Objectives of Financial Statements*, prepared by a committee chaired by

Robert M. Trueblood and published by the American Institute of Certified Public Accountants in 1971. The report identified the basic objective of financial statements as the provision of information useful for making economic decisions. The report was influential in the preparation by the Financial Accounting Standards Board of Statement of Financial Accounting Concepts No. 1.

True-up, Generally, is to make level, square, balanced, or concentric. Used in business as an expression meaning to "bring into alignment" with predetermined criteria or process.

Truncation Simplification of banking procedures. For example, to avoid the movement of such documents as cheques, banks are expanding the space available on bank statements to improve the description of the transaction.

Trust account Is a separate bank account, segregated from a broker's own funds, in which the broker is required by state law to deposit all monies collected for clients; in some states called an ESCROW ACCOUNT.

Trust Ancient legal practice where one person (the grantor) transfers the legal title to an asset, called the principle or corpus, to another person (the trustee), with specific instructions about how the corpus is to be managed and disposed.

Trust deed Is an instrument of conveyance of title to property wherein the transferee will be holding the title to the property on behalf of another person.

Trust fund Is a fiduciary relationship calling for a trustee to hold the title to assets, usually monetary, for the benefit of the beneficiary.

Trustee A person who holds the legal title to property but who is not its beneficial owner. Usually there are two or more trustees of a trust and for some trusts of land this is necessary. The trustee may not profit from the position but must act for the benefit of the beneficiary, who may be regarded as the real owner of the property. Either an individual or a company may act as trustee. It is usual to provide for the remuneration of trustees in the trust deed, otherwise there is no right to payment. Trustees may be personally liable to beneficiaries for loss of trust property.

Trustee in bankruptcy A person who administers a bankrupt's estate and realizes it for the benefit of the creditors.

Trustee investments Investments in which trustees are authorized to invest trust property. Trustees Investment Act regulates the investments of trust property that may be made by trustees. The act applies unless excluded by a trust deed executed after the act was passed. Half of the trust fund must be invested in narrow-range securities, largely specified in fixed-interest investments. The other half may be invested in wider-range securities, most importantly ordinary shares in companies quoted on the Stock Exchange. In some cases, trustees must take advice before investing. The act considerably enlarged the range of trustee investments.

Trustee Person who is given legal title to, and management authority over, the property placed in a trust.

Turnaround Is the reversal of unfavorable circumstances of a business where an investment opportunity may exist. A firm may work with such a business to restructure the management and finances in order to take the greatest advantage of more favorable circumstances. There are organizations like the Turnaround Management Association that specialize in turning around failing companies.

Turnover Inventory turnover is a measure of the time from receipt of inventory to its sale. It is found by dividing cost of sales by average inventory. Receivables turnover is a measure of the time it takes to collect receivables. It is found by dividing net credit sales by average net receivables. Employee turnover is the rate at which new employees replace old employees.

Turnover ratio An accounting ratio showing the number of times an item of circulating assets has been replaced by others of the same class within a financial period.

Turnover, In accounting, is the number of times an asset is replaced during a financial period; often used in terms of inventory turnover or accounts receivable turnover. In securities, for either a portfolio or exchange, TURNOVER is the number of shares traded for a period as a percentage of the total shares. In Great Britain, TURNOVER means sales.

Two party check Is a check made out from one individual to another, i.e. only two entities are involved in the transaction.

Two party endorsement, Normally, is when two signatures are required to make a document or bank draft legal or authorized.

Two-column cash book A cash book that records receipts and payments made but does not record discounts allowed and discounts received.

Two-tier board A method of running a large organization in which, in addition to a board of management, there is a supervisory board. It is claimed that this provides an effective method of corporate governance and is used in some European countries.

U

Ullage Is the empty space present when a shipping container is not full.

Ultimate holding company (**ultimate parent company)** A company that is the holding company of a group in which some of the subsidiary companies are themselves immediate holding companies of their own groups.

Ultra vires (Latin: beyond the powers) Denoting an act of an official or corporation for which there is no authority. The powers of officials exercising administrative duties and of companies are limited by the instrument from which their powers are derived. If they act outside these powers, their action may be challenged in the courts. A company's powers are limited by the objects clause in its memorandum of association. It it enters into an agreement outside these objects, the agreement may be unenforceable, although a third party may have a remedy under the Companies Act if it was dealing with the company in good faith (or there may be other equitable remedies).

Unabsorbed costs Occurs when the cost structure does not fully reflect all variable and/or fixed costs.

Unallocated costs Represents corporate costs not associated either directly or indirectly in providing a product or service for sale. Unallocated costs are not included in the calculation of COST OF GOODS SOLD.

Unappropriated profits Are those profits that have been withdrawn from a business by its proprietors or appropriated for any other purpose.

Unaudited Financial Statements financial statements which have not undergone a detailed audit examination by an independent certified public accountant (cpa).

Unaudited opinion Is a qualified opinion by a Certified Public Accountant who has not audited the relevant financial statements.

Unbudgeted Are items and/or amounts that are currently not included within a budget.

Uncommitted facility An agreement between a bank and a company in which the bank agrees in principle to make funding available to the company but is under no obligation to provide a specified amount of funding; if a loan is made it will be for only a short period. Examples of an uncommitted facility include a money market line or an overdraft.

Unconsolidated subsidiary An undertaking that, although it is a subsidiary undertaking of a group, is not included in the consolidated financial statements of the group.

Uncontrollable costs (**non-controllable costs**) Items of expenditure appearing on a manager's management accounting statement that are not able to be controlled or influenced by that level of management. Costs regarded as uncontrollable by one level of management may, however, be controllable at a higher level of management.

Uncontrollable expense Is expense that cannot be controlled or restrained. Some of the costs of doing business can not be postponed or spread out over a longer period of time (e.g., taxes, rent and utilities).

Underabsorbed overhead (**underapplied overhead**) The circumstance in absorption costing in which the absorbed overhead is less than the overhead costs incurred for a period. The difference, also known as an adverse variance, represents a reduction of the budgeted profits of the organization.

Under-billing Is not recovering the full value of the agreed upon price or not billing for the correct amount of services or goods provided (usually unintentional).

Underbudgeted Is a line item within a budget to where the budgeted amount is not sufficient to cover the actual amount.

Undercapitalization The state of a company that does not have sufficient capital or reserves for the size of its operations. For example, this may be due to the company growing too quickly. Although such a company may be making profits it may be unable to convert these profits sufficiently quickly into cash to pay its debts.

Underlying Is the security, cash commodity, forward, futures contract, swap, or other contract or instrument that is the subject of a derivative contract or instrument.

Underrecorded Normally refers to an understatement as to what a total would be if all data was accurately included or considered; e.g. underrecorded costs, revenues, population, etc.

Understated Is to represent as less than is the case.

Undertaking A body corporate, partnership, or an unincorporated association carrying on a trade or business with a view to making a profit.

Underwriter Is a. a banker who deals chiefly in underwriting new securities (investment banker), or b. an agent or financial institution that sells insurance.

Underwriting group A group of financial institutions that receive a fee for underwriting a new securities issue.

Undischarged bankrupt A person whose bankruptcy has not been discharged. Such persons must not obtain credit (above £250) without first informing their creditors that they are undischarged bankrupts, become directors of companies, or trade under another name. Undischarged bankrupts may not hold office as a JP, MP, mayor, or councillor. A peer who is an undischarged bankrupt may not sit in the House of Lords.

Undistributable reserves Reserves that may not be distributed according to the Companies Act (1985). They include share capital, share premium account, capital redemption reserve, certain unrealized profits, or any other reserve that the company may not distribute according to some other act or its own articles of association.

Undistributed profit Profit earned by an organization but not distributed to its shareholders by way of dividends. Such sums are available for later distribution but are frequently used by companies to finance their trade.

Unearned Income Payments received for services which have not yet been performed.

Unearned revenue / income Represents money that you have received in advance of providing the goods or services to your customer. Unearned revenue is a liability of your business until you provide the goods or services you agreed to provide to the customer.

Unexpired cost The balance of an item of expenditure, recorded in the books of account of an organization, that has not been written off to the profit and loss account. For example, the net book value of an asset represents the unexpired cost of that asset.

Unexpired Means not having come to an end or been terminated by the passage of time.

Unfranked investment income Income received by a company that has suffered income tax at source, e.g. debenture interest received.

Unfranked investment income is the net amount received plus the income tax suffered.

UNICAP

Uniform Accountancy Act (UAA) The UAA is the proposal for a new regulatory framework for the public accounting profession which was developed jointly by the American Institute of Certified Public Accountants (AICPA) and the National Association of State Boards of Accountancy (NASBA). The new framework is intended to enhance interstate reciprocity and practice across state lines by CPAs, meet the future needs of the profession, respond to the marketplace and protect the public that the profession serves.

Uniform Capitalization Rules These are a set of rules intended to be a single comprehensive set of rules to govern the capitalization, or inclusion in inventory of direct and indirect cost of producing, acquiring and holding property. Under the rules, taxpayers are required to capitalize the direct costs and an allocable portion of the indirect costs attributable to real and tangible personal property produced or acquired for resale. The obvious effect of the uniform capitalization rules is that taxpayers may not take current deductions for these costs but instead must be recovered through depreciation or amortization.

Uniform commercial code In the USA, a legal code that standardizes business law. It consists of regulations on commercial paper, warranties, uncertified cheques, security agreements, written agency agreements, and bankruptcy.

Uniform costing The use of the same basic costing system by a number of different organizations by adopting common costing principles and practices.

Unincorporated association An association of people that is not a corporation and whose members have not formed themselves into a partnership.

Unissued share capital The excess of the authorized share capital over the issued share capital, i.e. that part of the authorized share capital that has not yet been issued.

Unit cost Expenditure incurred by an organization expressed as a rate per unit of production or sales.

Unit standard operating profit The standard operating profit, expressed as a rate per unit of production or sales.

Unit standard production cost The standard production cost, expressed as a rate per unit of production or sales.

Unit trust 1. A trust formed to manage a portfolio of stockexchange securities, in which small investors can buy units. This gives the small investor access to a diversified portfolio of securities, chosen and managed by professional fund managers, who seek either high capital gains or high yields, within the parameters of reasonable security. The trustees, usually a commercial bank, are the legal owners of the securities and responsible for ensuring that the managers keep to the terms laid down in the trust deed. Prices of unit trusts are quoted daily, the difference between the bid and offer prices providing a margin for the management costs and the costs of buying and selling on the Stock Exchange. Basic-rate tax is deducted from the dividends paid by unit trusts and capital gains on the sale of a holding are subject to capital gains tax, although transactions involved in creating the portfolio are free of capital gains tax. In the USA unit trusts are called mutual funds. Many trusts are now available, specializing in various sectors of the market, both at home and abroad; there is also a wide spectrum of trusts catering for both those seeking growth and those seeking income.

2. A trust scheme (also called a unit investment trust) in the USA in which investors purchase redeemable trust certificates. The money so raised is used by the trustees to buy such securities as bonds, which are usually held until they mature. Usually both the number of certificates issued and the investments held remain unchanged during the life of the scheme, but the certificates can be sold back to the trustees at any time.

Unit-control system Is an accounting system used in inventory management that tracks inventory using bin tickets and physical inventory checks.

Unit-level activity, In Activity Based Costing, is an activity that must be done for each unit of production.

Unlimited company Is where there is no limit to the members liabilities.

Unlimited liability A liability to pay all the debts incurred by a business. For a sole proprietor or partnership, the liability of the owners is not limited to the amount the owner has agreed to invest. All debts of the business must not only be paid out of the assets of the business but also, if necessary, out of personal assets.

Unlisted securities Securities (usually equities) in companies that are not on an official stock-exchange list. They are therefore not required to satisfy the standards set for listing. Unlisted securities are usually issued in relatively small companies and their shares usually carry a high degree of risk. The existence of a USM enabled owners of small companies to realize their investments and raise capital, without having to satisfy the more stringent requirements of the main market. For full listing a company has to have a capital of at least £700,000, a three-year trading record, and 25% of the equity has to be available to the public. For unlisted securities the capital figure was the same but only 10% of the equity needed to be available for purchase on the USM, and there was a minimum two-year trading period. The USM has now been replaced by the Alternative Investment Market.

Unpaid cheque A cheque that has been sent to the payee's bank and then through the clearing process only to be returned to the payee because value cannot be transferred. If the reason is lack of funds the bank will mark the cheque 'refer to drawer'.

Unqualified Opinion Audit opinion not qualified for any material scope restrictions nor departures from generally accepted accounting principles (GAAP). The auditor may issue an unqualified opinion only when there are no identified material weaknesses and when there have been no restrictions on the scope of the auditor's work. Also known as clean opinion.

Unrealized accounts receivable, In cash based accounting, is monies due but not received; can be used to offset taxes.

Unrealized income (paper profit) Is profit which has been made but not yet realized or collected through a transaction, such as a stock which has risen in value but is still being held. also called unrealized gain or unrealized profit or paper gain or book profit.

Unrealized Is an event having occurred but not yet reflected in a transaction. This refers to unrealized gains and losses, which have not happened but would happen if the investor sold the security or asset that an entity currently holds. Unrealized gains are not usually taxable. It is the opposite of realized.

Unrealized loss Is a term that commonly refers to the write-down of an investment portfolio resulting from applying the lower of cost or market value on an aggregate basis. On a short-term portfolio, the unrealized loss is shown on the income statement. On a long-term portfolio, the unrealized loss is presented as a separate item in the stockholder's equity section of the balance sheet.

Unrealized profit (or **loss)** A profit or loss that results from holding assets rather than using them; it is therefore a profit or loss that has not been realized in cash.

Unresolved equity Is the difference between Total Assets and Total Liabilities on the Balance Sheet. Total Assets is always equal to Total Liabilities plus Equity.

Unrestricted assets Are assets / resources which are not restricted for use by legal or contractual requirements and may be used for any purpose.

Unrestricted grant Is a grant made to further the general purpose or work of an organization, rather than for a specific purpose or project.

Unsecured Creditor A creditor who does not have any security (collateral) for the debt he holds.

Unsecured Is obligation backed not by collateral but only by the integrity of the borrower. Opposite of secured.

Unusual gains and losses Are material gains and losses that are either unusual or occur infrequently, but not both, are excluded from the extraordinary item classification **usage variance** Is the difference between the budgeted quantity of materials and the actual quantity used.

Update (updated) If an auditor notices events that affect financial statements on which an audit report has been issued, they are considered when updating the report on the prior statements. If those statements are changed, the report says they have been restated and expresses the appropriate opinion. If an updated opinion differs from the previous opinion, an explanatory paragraph preceding the opinion paragraph explains that the report has been updated, discloses the date and type of opinion previously expressed, and events that caused the revision.

Upstream / downstream sales Is normally associated with inter-company sales: Upstream is a subsidiary selling into the parent entity; while downstream is the parent selling into a subsidiary.

Urgent issues task force (UITF) A body established in 1991 as part of the Accounting Standards Board. It is responsible for tackling urgent matters not covered by existing standards in which the timescale of the normal standard-setting process would not be practicable.

Usage rate The speed at which a commodity, raw material, or other resource is used up.

Usance 1. The time allowed for the payment of short-term foreign bills of exchange. It varies from country to country but is often 60 days.

2. Formerly, the rate of interest on a loan.

Use of Professional Skepticism when Evaluating the Results of Testing The auditor must conduct the audit of internal control over financial reporting and the audit of the financial statements with professional skepticism, which is an attitude that includes a questioning mind and a critical assessment of audit evidence.

Use tax Is a tax on the storing, using, consuming, and sometimes distributing tangible personal property or providing a taxable service, i.e. you will be subject to the use tax in the state where that event occurs.

Useful economic life The period for which the present owner of an asset will derive economic benefits from its use.

Useful life Is the expected period of time, in years, during which a depreciating asset will be productive.

User auditor A ?service auditor? is the auditor of an organization that provides services such as data processing or pension trust administration to other organizations (the users). Auditors of the users (user auditors) rely on a report from the service auditor about controls in the service organization that apply to financial statements of the user organization they are auditing.

User-friendly Denoting a computer system that is intended to be easy to use by people who are not computer specialists. The term was coined to distinguish such systems from older systems, in which the priority was efficient utilization of machine resources with few concessions to the convenience of the user. Commonly, a user-friendly system can be started up with a minimum of trouble and provides on-screen guidance to the user, usually in the form of menus. If the user becomes completely confused, a help menu lists the action to be taken to correct all common mistakes. Some input devices, such as the mouse, are considered easier to use than the traditional keyboard, and user-friendly machines therefore make use of them.

V

Vacancy and Collection Loss The reduction in potential gross income from vacancies and bad debts in real property. For example, a building has 50,000 square feet of space that should rent for $10 per square foot. The gross potential rent is $500,000 per year. However, vacancy and collection losses are projected to reduce that by $40,000 to $460,000 annually.

Vad, In business, can mean: Value of Annual Demand, Value-Added Data, Value-Added Dealer, or, Value-Added Distributor.

Validate Is to a. declare or make legally valid; b. mark with an indication of official sanction; or, c. to establish the soundness of; corroborate.

Validity check Software control over input of data to a computer system. Data is compared with the type of data properly included in each input field, e.g., only letters in a name field.

Valuable Papers Insurance Insurance that provides coverage for the destruction or loss of papers that have intrinsic value.

Valuation Allowance Method of lowering or raising an object's current value by adjusting its acquisition cost to reflect its market value by use of a contra account.

Valuation allowance/reserve Is an allowance to provide for changes in the value of a company's assets, such as depreciation or if an asset is deemed impaired.

Valuation An assertion made by management that each asset and liability is recorded at an appropriate carrying value.

Valuation date Is the day when the evaluation has been made or the date when the evaluation applies.

Value added Is the difference, at each stage of production or the provisioning of a service, between the price of a product or service and all materials or activities paid for to produce the product or provide the service.

Value added tax Is a consumption tax where taxes are levied at each step of a manufacturing process where value is added to that product at that point in the manufacturing cycle; as well as at the point where the consumer purchases the end product.

Value added vertical integration Is controlling as much of the build stream, both upstream and downstream, in producing a product or service as possible while ensuring that every part of the stream provides added value.

Value chain Is the sequential set of primary and support activities that an enterprise performs to turn inputs into value-added outputs for its external customers. As developed by Michael E. Porter, it is a connected series of organizations, resources, and knowledge streams involved in the creation and delivery of value to end customers. Value systems integrate supply chain activities, from determination of customer needs through product/service development, production/operations and distribution, including (as appropriate) first-, second-, and third-tier suppliers. The objective of value systems is to position organizations in the supply chain to achieve the highest levels of customer satisfaction and value while effectively exploiting the competencies of all organizations in the supply chain.

Value date The time at which a remittance sent through the bank clearing cycle becomes available to the payee for use.

Value for money audit An audit of a government department, charity, or other non-profitmaking organization to assess whether or not it is functioning efficiently and giving value for the money it spends.

value for money Is in the perception of the buyer or receiver of goods and/or services. Proof of good value for money is in believing or concluding that the goods/services received was worth the price paid. Examples of the types of factors that may be considered are suitability, quality, skills, price, whole of life costs and other criteria. The mix of these and other factors and the relevant importance of each will vary on a case by case basis.

Value in use Is the value of an asset in the opinion of the owner.

Value Is a term that defines the worth of a thing. The term is usually preceded by the word, or words such as 'Fair" or "Fair Market", and it is usually defined in the document where it is found. Not all value for an item is the same, i.e. value is usually perceived.

Value management Is the application of established techniques to help define and refine business need, delivery strategy and the best value concept by setting customer objectives and values and determining success criteria for the project.

Value to the business The value of an asset taken as the lower of the replacement cost and the recoverable amount. The latter is the greater of the net realizable value and net present value. It is claimed that generally an asset should never be worth more to a business than its replacement cost, because if the business were deprived of the asset it would replace it. If an asset is not worth replacing it would be sold (net realizable value), unless the net present value were higher. The concept is also known as the deprival value and was a feature of current cost accounting as required by Statement of Standard Accounting Practice 16.

Value-added network A telecommunications network providing communication facilities, which enhance basic telecommunications services. They add value by passing, storing and converting messages. Also known as service providers and EDI service providers. Operated by a clearing house, an organization that provides message/file collection, routing and distribution service on behalf of other organizations.

Value-added statement (added-value statement) A financial statement showing how much wealth (value added) has been created by the collective effort of capital, employees, and others and how it has been allocated for a financial period. Value added is normally calculated by deducting materials and bought-in services from turnover. The value added is then allocated to employees in the form of wages, to shareholders and lenders in the form of dividends and interest, and to the government in the form of taxes, with a proportion being retained in the company for reinvestment. Although popular as a simplified financial statement in employee reports in the 1970s, it has never become a major feature of the annual accounts and report given to shareholders.

Value-Added Tax A tax imposed on each step in the production process. The measure of the tax is the difference between the cost of the item to the taxpayer and the price at which the item is transferred to the buyer. For example, you purchase raw materials for $100. After machine work and assembly, you sell the item for $150. The tax is levied on the $50.

Vanishing Point The point at which premiums on a cash value life insurance policy will end.

Vanishing Premium A provision in many cash value life insurance policies where the premium, after a certain point in time, will end with the policy remaining in force. That time is usually estimated based on the premium and the assumed rate of return.

Var Is an acronym for Value-Added Reseller (usually of technology products); or, in finance, Value at Risk.

Variable cost ratio The ratio of variable cost to sales revenue, expressed as a percentage.

Variable costs Are those costs associated with production that changes directly with the amount of production, e.g.,the direct material or labor required to complete the build or manufacturing of a product.

Variable expenses Are those business expenses that usually fluctuate dependent upon production or sales volume. Contrast with FIXED EXPENSES.

Variable Life Insurance A life insurance policy where the face amount of the policy is not fixed (as in whole life) but can increase or decrease based on the performance of the investments purchased by the premiums. Like whole life, premiums are constant and the policy builds cash value.

Variable overhead cost The elements of an organization's indirect costs for a product that vary in total in proportion to changes in the levels of production or sales. Examples can include power, commission earned by sales personnel, and consumable materials.

Variable production overhead The elements of an organization's indirect manufacturing costs that vary in total in proportion to changes in the level of production or sales. Examples can include factory power and depreciation of machinery using the production-unit method.

Variable Rate Loan Loan whose interest rate changes over its life in relation to the level of an index.

Variable sampling The characteristic tested has many possible values (such as dollar value of inventory).

Variable-rate note (VRN) A bond, usually with a fixed maturity, in which the interest coupon is adjusted at regular intervals to reflect the prevailing market rate. A VRN differs from a floating-rate note in that the margin is not fixed and will be adjusted to take into account market conditions at each coupon setting date.

Variance analysis Is the analysis of performance by means of variances. Used to promote management action at the earliest possible stages. After a budget (based on standard costs) has been set, its usefulness lies in the review procedures which compare actual results against the budget. Variance analysis is the process of examining in detail each variance between actual and budgeted/expected/standard costs to determine the reasons why budgeted results were not met (material costs too high, sales prices too low, etc.).

Variance, In accounting, is the difference between a projected number and the actual number, e.g.
1. a budget variance is spending either more or less from the amount that was budgeted; and
2. a cost variance is the difference between actual cost and standard cost in the categories of direct material, direct labor, and direct overhead.

Veba Is Voluntary Employees' Benefits Association.

Vendor managed inventory (VMI) Is a process in which a supplier generates orders for its distributor based on demand information sent by the distributor. Vendor Managed Inventory was first applied to the grocery industry, between companies like Procter & Gamble (supplier) and Wal-Mart (distributor). But increasingly, Vendor Managed Inventory is providing the benefits of smoother demand, increased sales, lower inventories and reduced costs to other industries.

Vendor placing A type of placing used as a means of acquiring another company or business. For example, if company X wishes to buy a business from company Y, it issues company X shares to company Y as payment with the prearranged agreement that these shares are then placed with investors in exchange for cash. Vendor placings have been popular with some companies as a cheaper alternative to a rights issue.

Vendor statement Is a statement by the seller to the buyer detailing material particulars regarding the property in question (suitability for intended use).

Vendor's Lien Collateral for a note or credit advanced by the seller of the property.

Vendors Provide goods or services to an audited entity. Also called suppliers.

Venture capital Is capital committed to an unproven venture. The initial, start-up money is referred to as "seed money" and entails the greatest risk. If the project gets off the ground it may require additional financing at additional "rounds" or the "mezzanine level" before the company is finally brought to the market and the venture capitalist can enjoy handsome rewards. Experienced investors in venture capital situations typically plan on turning away a minimum of 9 out of every 10 proposals which are brought to them, and then they expect as many failures as successes from their selected investments.

Venture Is an investment that is very risky but could yield great profits.

Verifiability Is where the fact is capable of being tested (verified or falsified) by experiment or observation.

Verification A substantive test in an audit that checks on the existence, ownership, and valuation of assets and liabilities. It is used to gather audit evidence.

Verify (verification) Prove accuracy of numbers or existence of assets.

Vertical financial analysis Allows comparison of the financial ratios of a company in time – past, present and future.

Vertical form The presentation of a financial statement in which the debits and credits are shown one above the other.

Vertical integration Is the extent to which a firm owns its upstream suppliers and its downstream buyers. Control upstream is referred to as backward integration (towards suppliers of raw material), while control of activities downstream (towards the eventual buyer) is referred to as forward integration.

Vertical Integration The definition is a relationship between two businesses where one supplies more than 50% of its property or services to another, or where one receives more than 50% of its property or services from the other.

Vested interest 1. In law, an interest in property that is certain to come about rather than one dependent upon some event that may not happen. For example, a gift to 'A for life and then to B' means that A's interest is vested in possession, because A has the property now. B's gift is also vested (but not in possession) because A will certainly die sometime and then B (or B's estate if B is dead) will inherit the property. A gift to C 'if C reaches the age of 30' is not vested, because C may die before reaching that age. An interest that is not vested is known as a contingent interest.

2. An involvement in the outcome of some business, scheme, transaction, etc., usually in anticipation of a personal gain.

Vested Refers to having an absolute right or title, when previously the holder of the right or title only had an expectation. Example: after 20 years of employment Larry Loyal's pension rights are now vested.

Vet, vetted, vetting Is to make a careful and critical examination of someone or something, e.g. a person prior to employment.

Viability, In economics, is the capability of developing and surviving as a relatively independent social, economic or political unit.

View to resale The grounds on which a subsidiary undertaking is excluded from the consolidated financial statements of a group, because the group's interest in the subsidiary is held exclusively with a view to subsequent resale. Financial Reporting Standard 2, Accounting for Subsidiary Undertakings, defines the circumstances appropriate for this exclusion as if a purchaser has been identified or is being sought for a subsidiary and it is reasonably expected that the interest will be disposed of within approximately one year of its date of acquisition. The subsidiary undertaking should not previously have been consolidated in group accounts prepared by the holding company. Where a subsidiary undertaking is excluded on these grounds, it should be recorded in the consolidated financial statements as a circulating asset at the lower of cost and net realizable value.

Virement The practice allowed in some systems of budgetary control in which overspending under one budget expenditure head may be offset by underspending under another budget expenditure head. If virement is not allowed, each head of expenditure must be treated individually.

Voidable A transaction that can be annulled if one of the parties asserts a claim to do so.

Volume gain Is to obtain advantages due to increase in volume, such as value increase, points in gross margin or profit.

Volume variances Standard costing variances that arise as a result of differences between the fixed overhead absorbed and the fixed overhead budgeted.

Voluntary arrangement A procedure provided for by the Insolvency Act (1986), in which a company may come to an arrangement with its creditors to pay off its debts and to manage its affairs so that it resolves its financial difficulties. This arrangement may be proposed by the directors, an administrator acting under an administration order, or a liquidator. A qualified insolvency practitioner must be appointed to supervise the arrangement. This practitioner may be the administrator or liquidator, in which case a meeting of the company and its creditors must be called to consider the arrangement. The proposals may be modified or approved at this meeting but, once approved, they bind all those who had notice of the meeting. The court may make the necessary orders to bring the arrangement into effect. The arrangement may be challenged in court in the case of any irregularity. The aim of this legislation is to assist the company to solve its financial problems without the need for a winding-up .

Voluntary liquidation (voluntary winding-up)

Voluntary registration Registration for value added tax by a taxable person whose taxable turnover does not exceed the registration threshold.

Vostro account Is a local currency account maintained with a bank by another bank. The term is normally applied to the counterparty's account from which funds may be paid into or withdrawn, as a result of a transaction.

Voting shares Shares in a company that entitle their owner to vote at the annual general meeting and any extraordinary meetings of the company. Shares that carry voting rights are usually ordinary shares, rather than A shares or debentures. The company's articles of association will state which shares carry voting rights.

Voting Stock An interest in a corporation where the shareholder is entitled to vote. Depending on its charter, a corporation can issue voting and nonvoting stock. Preferred stock is usually nonvoting.

Voting Trust Certificate A document representing a beneficial interest in a voting trust.

Vouch Prove accuracy of accounting entries by tracing to supporting documents.

Voucher Is a. a piece of substantiating evidence; a proof; or, b. a written record of expenditure, disbursement, or completed transaction; or, c. a written authorization or certificate, especially one exchangeable for cash or representing a credit against future expenditures.

W

Vouching A substantive test in an audit to check that the underlying records correctly show the nature of transactions entered into by the business being audited.

Wages The remuneration paid to hourly paid employees for the work done, usually based on the number of hours spent at the place of work.

Waiting time The period during which the operators of a machine or the machinery itself are idle or waiting for work, material, or repairs.

Waiver In insurance terminology, a provision in the policy releasing the insurance company from liability to pay for specified losses that would normally be covered under the policy.

Waiver of Mistake or Informality. The act of disregarding errors or technical nonconformities in a bid which do not affect the substance of the bid and will not adversely affect the competition between bidders.

Waiver of Premium Provision A provision available in many disability income and life insurance policies that allow the policy to stay in force without the payment of premiums if the insured has been disabled for a specific periof of time (typically 6 months on life insurance policies).

Walk-through test A test that takes a few transactions from the records of a business and follows them through every stage of the accounting system. For example, a walk-through test of a purchases system would follow through from the material requisition to settlement of the supplier's invoice.

Walkthroughs The most effective means for an AUDITOR to confirm his understanding how internal control over financial reporting is designed and operates to evaluate and test its effectiveness. It includes making inquiries of and observing the personnel who actually perform the controls; reviewing documents that are used in, and that result from, the application of the controls; and comparing supporting documentation to the accounting records. In a walkthrough, the auditor traces a transaction from origination through the company's information systems to the point where it is reflected in the company's financial reports. Walkthroughs provide the auditor with evidence to: 1. Confirm the auditor's understanding of the process flow of transactions. 2. Confirm the auditor's understanding of the design of controls identified for all five components of internal control over financial reporting, including those related to the prevention or detection of fraud. 3. Confirm that the auditor's understanding of the process is complete by determining whether all points in the process at which misstatements related to each relevant financial statement assertion that could occur have been identified. 4. Evaluate the effectiveness of the design of controls. 5. Confirm whether controls have been placed in operation.

War loan A government stock issued during wartime; it has no redemption date and pays only 3½% interest.

Warehouse Receipt A document showing ownership of goods stored in a warehouse. The receipt can be used to transfer ownership of the goods without having to ship the actual goods to the buyer.

Warrant, In government accounting, is an order drawn authorizing payment to a designated payee. In securities, it is a security entitling the holder to buy a proportionate amount of stock at some specified future date at a specified price, usually one higher than current market. This "warrant" is then traded as a security, the price of which reflects the value of the underlying stock. Warrants are issued by corporations and often used as a "sweetener" bundled with another class of security to enhance the marketability of the latter. Warrants are like call options, but with much longer time spans — sometimes years. In addition, warrants are offered by corporations whereas exchange traded call options are not issued by firms.

Warranty Deed A deed that warrants that the seller is transferring title free and clear of any encumbrances. Should the title turn out to be defective, the buyer has recourse to the seller.

Warranty Is a guarantee given to a buyer from a seller that the goods or services purchased will perform as promised, or a refund will be given, repair will be done at no charge, or an exchange made.

Wash Sale A wash sale occurs if stock or securities are sold at a LOSS and the seller acquires substantially identical stock or SECURITIES 30 days before or after the sale. Stock or securities for this purpose includes contracts or operations to acquire or sell stock or securities. Losses incurred in a wash sale cannot be deducted. It does not matter if the total 60 day period begins in one tax year and ends in another. However, the disallowed loss is not permanently lost. Instead, the basis in the newly acquired stock or securities is the same basis as of the stock or securities sold, adjusted by the difference in price of the stock or securities.

Wasting asset An asset that has a finite life; for example, a lease may lose value throughout its life and become valueless when it terminates. It is also applied to such assets as plant and machinery, which wear out during their life and therefore lose value.

Watered Stock Generally, stock that is overvalued because of accounting gimmicks or where unauthorized shares have been issued.

Waybill Document prepared by a common carrier that provides the details of the route shipped goods are to follow.

Wealth tax A tax used in some European countries, not including the UK, consisting of an annual levy on wealth. In practice, the implementation of a wealth tax requires a clear identification of the assets to be charged and an unassailable valuation of these assets. In 1975, the issue of a wealth tax was considered by the UK government, but as no agreement on the identification and valuation of chargeable assets could be reached, it failed to reach the statute book.

Wear and tear A diminution in the value to an organization of a fixed asset due to the use and damage that it inevitably sustains throughout its working life. It is one of the causes of depreciation.

Webtrust engagements A cpa issues an opinion on a web site when the business and information privacy practices, transaction integrity, and protection of customer information meet certain standards.

Weighted average (weighted mean) An arithmetic average that takes into account the importance of the items making up the average. For example, if a person buys a commodity on three occasions, 100 tonnes at £70 per tonne, 300 tonnes at £80 per tonne, and 50 tonnes at £95 per tonne, the purchases total 450 tonnes; the simple average price would be (70 + 80 + 95)/3 = £81.7. The weighted average, taking into account the amount purchased on each occasion, would be: • [(100 × 70) + (300 × 80) + (50 × 95)]/450 = £79.4 per tonne.

Weighted average cost of capital (WACC) Is an average representing the expected return on all of a company's securities. Each source of capital, such as stocks, bonds, and other debt, is weighted in the calculation according to its prominence in the company's capital structure.

Weighted average Is one in which different data in the data set are given different "weights." Varying subjective assumptions are derived for determining the level of importance for each data category. For example, many teachers will use a "weighted average" when calculating a student's grade in a course. A teacher might determine the final grade for the course by calculating that the test average is 60% of the grade, quiz average is 30% of the grade, and a single project is 10% of the grade.

When Issued Refers to a security that is being traded but has not yet been formally issued. Usually reserved for new issues of stocks and bonds and stocks that have split. For example, Madison Inc. is selling for $100 per share. The stock has been split 2-for-1 but new shares have not been issued. It may trade for $50 per share (the post-split price) on a 'when issued' basis. Usually abbreviated WI in financial newspapers.

White Goods A term used in retailing and economic measurement for large household appliances such as stoves, washers, dryers, refrigerators, etc.

White knight A person or firm that makes a welcome takeover bid for a company on improved terms to replace an unacceptable and unwelcome bid from a black knight. If a company is the target for a takeover bid from a source of which it does not approve or on terms that it does not find attractive, it will often seek a white knight, whom it sees as a more suitable owner for the company, in the hope that a more attractive bid will be made.

White paper 1. In A Technological industry, is an informational brief offering an overview of a technology, product, issue, standard, policy, or solution - its importance, use and implementation, and business benefits. White Papers have emerged as the standard way of communicating more in-depth information to business decision-makers in terms of problems solved and markets addressed; or, 2. a White Paper can be an official government report of an investigation into a public event that received a great deal of publicity and notoriety; it indicates the official government position on a particular public issue.

Whole Life Insurance. A life insurance policy that not only pays the face amount on the death of the insured, it builds cash value because the required premiums exceed the amount necessary to provide pure insurance protection. Premiums are level throughout the life of the policy. Contrast with Term Life

Wholesale Is the selling of goods to retail merchants; usually in large quantities for resale to consumers.

Wholly owned subsidiary Is an entity whose parent owns virtually 100% of its common stock.

Widget Is a device that is very useful for a particular job. Often used within a name of a fictitious company.

Will A document giving directions as to the disposal of a person's property after death. It has no effect until death and may be altered as many times as the person (the testator) wishes. To be binding, it must be executed in accordance with statutory formalities. It must be in writing, signed by the testator or at the testator's direction and in the testator's presence. It must appear that the signature was intended to give effect to the will (usually it is signed at the end, close to the last words dealing with the property). The will must be witnessed by two persons, who must also sign the will. The witnesses must not be beneficiaries.

Windfall gains and losses Gains and losses arising from actual or prospective receipts that differ from those originally predicted or from changes in the net present value of the receipts as a result of differences in discount rates.

Windfall profit/gain Is profit that occurs suddenly as a result of an event not controlled by the company or person realizing the gain from the event. For example, a hurricane may bring extraordinary revenue to a roofing contractor as a result of the natural disaster.

Winding Up The processing of liquidating a company. Includes paying off creditors, selling and/or distributing assets to owners, etc.

Window dressing Is the act or an instance of making something appear deceptively attractive or favorable. Usually using something, e.g. inflated sales projections, to create a deceptively favorable or attractive impression.

Window of enterprise Depicts the overall structure of accounting.

Wip Is an acronym for Work in Process/Progress. Usually refers to inventory that has value added from labor or additional processing. When considered for inventory value, the value of the raw material plus the value added component is accounted for in determining the value of that inventory at that point in the process.

Wire Transfer The transfer of money between two banks using a wire transfer system or the Federal Reserve's transfer system. Banks usually charge an extra fee for this service, but the transfer to your account is done faster, hence the funds wired from another party are available quicker than if you received the check and your bank waited for the funds to clear.

Withdrawal Plan. In the case of mutual funds, a plan that allows shareholders to receive regular payments of income or capital gains.

Withholding Allowance Each taxpayer is allowed to claim a withholding allowance, which exempts a certain amount of wages from being subject to withholding. The allowance is designed to prevent too much taxes being withheld from a taxpayers wages and a person can compute this by completing form W-4 and submitting it to their employer.

Withholding Amount withheld or deducted from employee salaries by the employer and paid by the employer, for the employee, to the proper authority.

Withholding tax Usually refers to those taxes that are withheld from an employee's compensation to account for that individuals tax liability on his/her compensation.

Witholding, Dependent upon application, is: a. income tax withheld from employees' wages and paid directly to the government by the employer; or, b. a tax deducted from dividends on investments which are paid to foreign investors. This can be claimed back if there is a Double Taxation Agreement in place between the countries.

Without prejudice Words used as a heading to a document or letter to indicate that what follows cannot be used in any way to harm an existing right or claim, cannot be taken as the signatory's last word, cannot bind the signatory in any way, and cannot be used as evidence in a court of law. For example, a solicitor may use these words when making an offer in a letter to settle a claim, implying that the client may decide to withdraw the offer. It may also be used to indicate that, although agreement may be reached on the terms set out in the document on this occasion, the signatory is not bound to settle similar disputes on the same terms.

Without recourse (sans recours) Words that appear on a bill of exchange to indicate that the holder has no recourse to the person from whom it was bought, if it is not paid. It may be written on the face of the bill or as an endorsement. If these words do not appear on the bill, the holder does have recourse to the drawer or endorser if the bill is dishonoured at maturity.

Witness Is an individual who testifies at a trial on what he has seen, heard, or otherwise observed.

Work center, Normally, is an individual production area or sub-process of an overall manufacturing process.

Work in process is parts and subassemblies in the process of becoming completed finished goods.

Work in Progress Inventory account consisting of partially completed goods awaiting completion and transfer to finished inventory.

Work measurement An estimate of the time required to carry out a series of manufacturing procedures, by studying the operations involved by means of time, methods, and work studies.

Work sheet Is a document or schedule in which an accountant or auditor gathers information to substantiate an opinion concerning an account balance or 'test of transaction.'

Worker's compensation Is, usually, a state or privately managed insurance fund in the United States that reimburses employees for injuries suffered on the job.

Workers' Compensation Benefits Life and health insurance coverage for employees only while they are on the job. Medical expenses, disability income, dismemberment, and death benefits are provided under the policies.

Working asset statement is a net worth statement minus any personal assets, the car, house, boat, etc. A working asset statement will give a clear picture of an individual's invested assets.

Working capital (WC) Is current assets minus current liabilities; also called net current assets or current capital. It measures the margin of protection for current creditors. It reflects the ability to finance current operations.

Working capital ratio is working capital expressed as a percentage of sales.

Working capital statement (WCS) Is part of the financial statements' "Statements of Cash Flows or Changes in Financial Position." The WCS normally includes sections covering: Sources of Working Capital, Uses of Working Capital, and Working Capital Changes.

Working capital turnover (WCT) Shows how efficiently Working Capital (WC) is employed, i.e., it measures how efficiently the business is using its available assets. WCT measures the amount of Net Revenue generated per monetary unit of Working Capital. It varies widely by industry; therefore it is best to compare WCT to industry averages.

Working Papers (1) Records kept by the auditor of the procedures applied, the tests performed, the information obtained, and the pertinent conclusions reached in the course of the audit. (2) Any records developed by a certified public accountant (CPA) during an audit.

Working trial balance Is similar to the trial balance. Additionally, it contains columns for adjusting entries and the adjusted balance. This report is typically used at year-end to assist in making adjusting entries.

Working-capital adjustment (monetary working-capital adjustment) A current cost accounting adjustment made to the working capital of a business. Bank balances and overdrafts may fluctuate with the volume of stock held, the debtors, and the creditors. If the bank balances and overdrafts arise from such fluctuations, they too should be included in the monetary working capital, together with any cash required to support the daily operations of the business.

Workout An attempt by a debtor and creditor to avoid foreclosure or bankruptcy when the debtor is in financial difficulty. The creditor often will accept less than full payment of debts in order to avoid receiving less in a bankruptcy case.

Workweek The normal number of days and hours employees are scheduled to work for a week. In economic statistics, a measure of the economy. The longer the workweek, the more employees in general are working and is a reflection of whether employers are hiring new employees are just extending the hours of current employees.

World bank the name by which the International Bank for Reconstruction and Development combined with its affiliates, the International Development Association and the International Finance Corporation, is known.

World trade organization (WTO) Is the international trade body formed by the agreement of member nations. The WTO is an evolution of the GATT process designed to resolve trade disputes and work for the lowering of tariff and non-tariff trade barriers.

World wide web The network of hyperlinked web pages, which is accessible on the Internet.

Worth Is an indefinite quantity of something having a specified value.

Wrap account At its most basic is an alternative form of commission arrangement between a securities firm and its client. Wrap accounts generally charge the client an annual fee based on assets in the account in lieu of a per transaction commission structure. In other words, the firm "wraps" together all the costs and charges them off as a "management fee". Firms often add further features to wrap accounts such as investment management, custodial services, and enhanced reporting.

Wrap-Around Mortgage Second mortgage which conveniently expands the total amount of borrowing by the mortgagor without disturbing the original mortgage.

Writ An order issued by a court. A writ of summons is an order by which an action in the High Court is started. It commands the defendant to appear before the court to answer the claim made in the writ by the plaintiff. It is used in actions in tort, claims alleging fraud, and claims for damages in respect of personal injuries, death, or infringement of patent. A writ of execution is used to enforce a judgment; it is addressed to a court officer instructing that officer to carry out an act, such as collecting money or seizing property. A writ of delivery is a writ of execution directing a sheriff to seize goods and deliver them to the plaintiff or to obtain their value in money, according to an agreed assessment. If the defendant has no option to pay the assessed value, the writ is a

Writ of specific delivery. **Write off** 1. To reduce the value of an asset to zero in a balance sheet. An expired lease, obsolete machinery, or an unfortunate investment would be written off. 2. To reduce to zero a debt that cannot be collected . Such a loss will be shown in the profit and loss account of an organization.

Write Off To reduce the value of an asset on a company's books to the fair market value, or fair market value less the cost of disposal. For example, a computer purchased for $5,000 and depreciated down to $3,000 is now found to be worth no more than $500. You write off $2,500 to show the asset at the current market value. Also known as *write down.* This procedure is generally not allowed for tax accounting purposes.

Write Up Generally, the reverse of Write Off, above. Usually not allowed for accounting purposes.

Write-down Is the reduction in the book value of an asset.

Write-off Is to decrease the value of an item, e.g., a tax write-off decreases tax liability, a vehicle involved in an accident can be declared a write-off if the cost to repair is in excess of the value of the vehicle.

Write-up Is the increase in value of an asset, but it is seldom used and is not allowed in GAAP (Generally Accepted Accounting Principles).

Write-up service Is the provisioning of all reporting requirements of bookkeeping and accounting services. The following is a non-exhaustive list of reporting services provided:

Wrongful trading Trading during a period in which a company had no reasonable prospect of avoiding insolvent liquidation. The liquidator of a company may petition the court for an order instructing a director of a company that has gone into insolvent liquidation to make a contribution to the company's assets. The court may order any contribution to be made that it thinks proper if the director knew, or ought to have known, of the company's situation. A director would be judged liable if a reasonably diligent person carrying out the same function in the company would have realized the situation: no intention to defraud need be shown.

X

X-inefficiency Is the failure to minimize costs or maximize returns. (Sometimes referred to as X-efficiency, but carrying the same meaning.)

Y

Yankee bond Is a dollar bond issued by a non-U.S. borrower in the United States.

Yearly Renewable Term A term policy covering one year that is renewable each year without having to show insurability.

Yellow Book Written by the general accounting office, the yellow book sets forth standards to be followed in auditing the financial statements of entities that receive federal financial assistance. "Yellow Book" is the name given to "Government Auditing Standards" issued by the Comptroller General of the United States which contains standards for audits of government organizations, programs, activities and functions, and of government assistance received by contractors, nonprofit organizations and other nongovernment organizations.

Yen Is the currency of Japan. Its subdivisions are 100 sen and 1000 rin.

Yield curve A curve on a graph in which the yield of fixed-interest securities is plotted against the length of time they have to run to maturity. The yield curve usually slopes upwards, indicating that investors expect to receive a premium for holding securities that have a long time to run. However, when there are expectations of changes in interest rate, the slope of the yield curve may change.

Yield Equivalence The interest rate at which a tax-exempt bond and a taxable one have the same after-tax return. The theory assumes that both bonds are of similar quality. To find the equivalent taxable yield of a tax-exempt bond, divide the tax-exempt yield by 1 minus your marginal tax rate. ***Example*—**A tax-exempt bond is yielding 6%; your marginal tax rate is 31%. One minus .31 is .69. Divide that into .06; the result is .08695, or 8.7%. Thus, a 6% tax-exempt yield is equivalent to an 8.7% fully taxable yield.

Yield Is the annual return on an investment, expressed as a percentage. The yield to redemption or maturity (the same thing) combines the running yield with the "pull to redemption"; thus a bond which has a 10% coupon and exactly one year of remaining life will sell at $98.2% when interest rates are at 12.0%, that 12.0% being composed of 10.2% running yield and 1.8% pull to redemption ($100.0 - 98.2%).

Yield Spread The difference in yields among bonds of the same maturity that's caused by differences in the quality of the bonds.

Yield to Call Similar to Yield to Maturity but the call price and earlier call date are substituted for maturity date when calculating the yield. For example, Madison Inc. issues a bond for $1,000 at 10%. The bond matures 15 years later, but is callable at the end of 7 years at 105 ($1,050). The higher call price and the shorter term is used to compute the yield.

Yield to Maturity Rate of return on a security to its maturity, giving effect to the stated interest rate, accrual of discount, or amortization of premium.

YTD Is Year To Date; meaning the period beginning of the calendar year, January 1st of the current year, or the fiscal year up until today's date. **ZERO BASED BUDGET** is where the expenses or costs of the prior year are not taken into consideration when establishing expense or budgetary levels looking forward. Each expense category starts from zero. All expenses or cost levels within the budget must be justified or re-justified as being necessary; thus "zero-base".

Z

Zero Balance Account A checking account designed to have a zero balance. The bank transfers enough funds from an interest bearing account each day to pay all checks presented to the bank for payment.

Zero coupon bonds Are bonds priced at a large discount from face value. The bonds mature at full face value so the difference between the original issue price and the face value represents interest income. The issuer of the zero coupon bond saves on cash flow since the interest isn't paid out until the end of the bond holding period.

Zero coupon convertible debenture/security Is a zero coupon bond that is convertible into the common stock of the issuing company after the common stock reaches a certain price.

Zero-base budget (ZBB) A cash-flow budget in which the manager responsible for its preparation is required to prepare and justify the budgeted expenditure from a zero base, i.e. assuming that initially there is no commitment to spend on any activity.

Zero-Base Budgeting A technique where each budget starts from zero, rather than starting with the prior budget and increasing or decreasing it. Theoretically, under zero-base budgeting, every expense has to be justified. That should foster a closer look at all expenditures.

Zero-rated Denotes goods on which the buyer pays no value-added tax although the seller can claim back any tax he/she has paid.

Zero-rated sales Is when a sale is taxable at the rate of 0%, i.e. no sales tax. Some examples could be: basic groceries, prescription drugs or certain medical devices.

4 C's OF CREDIT are the four primary considerations that will affect a lender's decision to approve or decline your loan application. Known as the 4 C's of credit: 1. Capacity - what is your ability to repay the loan? Do you have a job or another income source? Do you have other debts? 2. Character - will you repay the loan? Have you used credit before? Do you pay your bills on time? 3. Collateral - if you fail to repay your loan, is there something of value that you agree to forfeit? For example, if you are buying your first car, it could be used as collateral to insure that you will repay the loan. If you default, you lose your car. 4. Capital (accumulation) - what are you worth? Do you have other assets, such as a savings account, car, or certificate of deposit that could be used to repay the debt.

4-4-5 CALENDAR, in budgeting and accounting, is the breakdown of each month into weeks by counting the number of times Friday occurs within each month, e.g., Jan = 4 weeks, Feb = 4 weeks, Mar = 5 weeks, Apr = 4 weeks, May = 4 weeks, Jun = 5 weeks… etc. to total 52 weeks in a 12 month period. Every third month, Friday will occur 5 times. All other months, Friday will occur 4 times. In the months where Friday occurs 5 times, it is considered a 5 week month. Whereas, the 4 Friday months will be considered as 4 week months.

Z-score A single statistic that attempts to measure the susceptibility of a business to failure. It is computed by applying beta coefficients to a number of selected ratios taken from an organization's final accounts using the technique of multiple discriminant analysis.