Financial
Terms at a Glance

Dr. Kirti Ranjan Swain

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Preface

Today, awareness has increased. The liberalization and globalization has bought significant and broad-based. So, the students should acquire the conceptual thought towards interview scenario. The book provides update material on relate with financial aspects like accounting financial terms, capital market and derivative terms, abbreviation, etc., with some interview tips, which helps in better understanding for the finance specialization students, basically MFC, MBA (Finance), PGDM, BBA, B.Com. students. This book, also helpful to the students towards interview practices. I am sure the readers will find it very useful and develop curiosity as they scan through the different terms.

I am particularly grateful to my parents who have always been a source of inspiration to me. I am grateful to Mr. Niraj Pandeyjee of M/s Himalaya Publishing House who have given me the opportunity in bringing out this book. I am deeply thankful to Mr. B.K Ojha, who always encouraged me in completing this venture.

My special thanks to all those who helped me in one way or the other, encouraged me to continue this task.

Dr. K. R. Swain

Contents

1 Glossary: Financial Term

A

Abnormal Losses: The loss which is arising due to the negligence in the production process. By the nature, it should have been avoided if certain precautions are taken.

Absorption Costing: It is a method of allocating all indirect manufacturing costs to products.

Account: It is a part of double entry records, containing details of business transactions for a specific format.

Accounting: It is a process of identifying, classifying, recording, measuring and communicating economic information to the user group for the necessary information.

Accounting Cycle: The sequence in which data is recorded and processed until it becomes part of the financial statements at the end of the period.

Accounting Equation: Accounting equation is treated as the heart of double-entry bookkeeping. It simply stated that

Capital = Assets – Liabilities or Assets = Capital/Source of Funds — Liabilities

Accounting Information System (AIS): AIS comprises of all the inputs, storage, transaction processing, collating, and reporting of financial transaction data.

Accounting Periods: The period of time used by the business to process its accounts and to produce reports relate with the Profit and Loss Accounts and the balance sheet. It generally starting from 1^{st} April to 31^{st} March every year.

Accounting Policies: Accounting policies involves principles, rules and practices applied by an entity that specify how the effects of transactions and other events are to be reflected in its financial statements.

Accounts Receivable: An accounts receivable is the *nominal* ledger which contains the overall balance of the sales ledger.

Accretive: The term accretive generally arise at the time of when one company acquires another company. And the deal is called as ‘accretive to earnings’; it means that the resulting *P/E ratio* (price/earnings) of the acquired company is less than the acquiring company.

Accrual Accounting: An accounting method that tries to match the recognition of revenues earned with the expenses incurred. With the accrual method, income and expenses are recorded as they occur. An example is a sale on credit.

Accruals: The accruals process allows a business to adjust the monthly accounts for payments made in arrears. There are certain expenses that are paid for sometime after they have been used. For example, electricity charges. In simple the term accruals means outstanding.

Accrued Expense: It is an expense for which the benefit has been received, but has not been paid for by the end of the period. It generally shown in the balance sheet under current liabilities as 'accruals'.

Accrued Income: Accrued income is normally from a source of income of business. Such as rent receivable on an unused office in the company headquarters, that was due to be received by the end of the period, but which has not been received by that date. It is added to debtors in the balance sheet.

Accumulated Depreciation Account (ADA): This account is used to accumulate depreciation for balance sheet purposes and used to leave the cost or valuation figure as the balance in the fixed asset account.

Accumulated Fund: Accumulated fund is a form of capital account for a non-profit-oriented organization.

Acid Test Ratio: ATR is the ratio to find out whether the business has sufficient liquid resources to meet its current liabilities or not. It calculated are:

Acid Test Ratio = (Current Assets - Stock) ÷ Current Liabilities

It probably the most important one of all and an attempt to indicate how easily a company could pay its debts without selling its stock.

Activity-based Costing: Activity-based costing is the process of using cost drivers as the basis for overhead absorption.

Active Management: An active fund manager is one who tries to outperform stock market indices by skilfully selecting winning stocks.

Advisory Stockbroker: An advisory stockbroker is a broker who gives personalized advice on what shares or other investments to purchase or sell.

Adverse Variance: A difference arising that is apparently 'bad' from the perspective of the organization. For example, when the total actual materials cost exceeds the total standard cost due to more materials having been used than anticipated.

Aged Debtors: Aged debtors are the debtors who have owed money to the business for a defined period of time.

Allocation: It is the process by which payments are matched against purchase invoices, and receipts against sales invoices raised.

Alternative Investment Market (AIM)

It is designed as a separate market for the shares of smaller growing companies that are not yet ready for a full listing on the London Stock Exchange. It allows them access to investment capital without the cost and regulatory burdens of a full listing on the main market. It is usually used as a stepping stone to the main market.

Amortization: The process of writing off an intangible asset is called as amortization. In accounting, amortization refers to expensing the acquisition cost minus the residual value of intangible assets in a systematic manner.

Analyzed Sales Day Book: A sales day book where the net figures are analyzed into the different type of sales.

Annuity: An income-generating investment whereby, in return for the payment of a single lump sum, the annuitant receives regular amounts of income over a predefined period.

Annual Management Charge (AMC)

It is a charge paid to a company for managing your investments. The charge can vary from 0.5 per cent to around 1.5 per cent, and is dependent upon the type of investment and the degree of advice received.

Annual General Meeting (AGM)

It is the annual shareholders meeting of the companies. All companies apart from the very small are required to have an annual general meeting by law.

Annual Percentage Rate (APR)

The APR is the interest rate figure that indicates the total cost of borrowing, including any charges. When you borrow money, every lender is required by law to quote this rate. It was introduced as part of the Consumer Credit Act of 1974 and it is mostly used for credit cards, personal loans and mortgages.

Approved Investment Trust Company (AITC)

An investment trust company that doesn't have to pay capital gains tax on profits, that it makes from the sale of investments within its portfolio.

Appropriation Account: Appropriation account show the way that net profit is distributed usually in the form of cash dividend between partnership business or between the shareholders and reserve funds in a company.

Arbitration: In arbitration an independent third party considers both sides in a dispute, and makes a decision to resolve it. The arbitrator is impartial; this means he or she does not take sides. In most cases the arbitrator's decision is legally binding on both sides, so it is not possible to go to court if you are unhappy with the decision.

Arbitrage: It is a process of buying securities at a low price in one market and simultaneously selling them in another market at a higher price to make a profit. In share trading, investors called risk arbitrageurs attempt to make profits from an expected rise in the price of a takeover target's shares and a drop in the price of the bidding company's shares.

Assets: An asset is something that is of value to a company. It may be tangible and intangible assets. Tangible assets include property, vehicles, stock, cash, money held in the bank and debtors, etc. It further categorized into Fixed Assets and Current Assets. But the intangible assets include patents, copyrights, trademarks and goodwill.

Associates: The term associates include family members, relatives, partners and their relatives, employees, employers, trustees in certain trust relationships, and companies which the individual controls. Associates of companies include other companies under common control.

Ask Price: The ask price is the lowest price at which an investment can be sold at a given moment.

Association of Investment Trust Companies (AITC): The AITC is the main trade body representing over 300 investment trusts. The industry has often laboured in the shadow of unit trusts, even though investment trusts are generally cheaper and can offer better returns over the long-term.

Association of Unit Trusts and Investment Funds (AUTIF): AUTIF is the main trade association for the retail fund management industry. It promotes investment in mutual funds, such as Unit Trusts and Open Ended Investment Companies (OEICs), including Individual Savings Accounts (ISAs) and Personal Equity Plans (PEPs).

Auditor: An auditor is a person who qualified to inspect, correct and verify business accounts.

Audit Trail: A register of the details of all accounting transactions and dealt with from start to finish.

Authorized or Licensed Insolvency Practitioner: The person usually an accountant or solicitor authorized by the Department of Trade and Industry (DTI) or a recognized professional body to act as trustee, nominee, supervisor, liquidator, administrative receiver or administrator.

Authorized Share Capital: The total value of shares that the company could issue, as distinct from the up and paid-up share capital.

B

Bad Debt: The term bad debt refers as debt which is enable to collect from its debt holder. It is treated as a loss. If a business is having difficulties collecting money owed from one of its customers it may decide to cancel the debt. This is called a write-off and the accounts would need to be adjusted for this write-off.

Bad Debts Account: An account in the *nominal* ledger to record the value of unrecoverable debts from customers. Real bad debts are likely to happen can be deducted as expenses against tax liability.

Bad Debts Reserve Account: An account used to record an estimate of bad debts for the year usually as a percentage of sales. This cannot be deducted as an expense against tax liability.

Balance Brought Down: The difference between both sides of an account that is entered below the totals on the opposite side to the one on which the balance carried down was entered. Normally abbreviated to 'balance b/d'.

Balance Carried Down: The difference between both sides of an account that is entered above the totals and makes both sides equal to each other. Normally abbreviated to 'balance c/d'.

Balanced Scorecard: It is a technique that assesses performance across a balanced set of four perspectives – customers, internal processes, organizational learning and growth, and financial.

Balance of the Account: Balance of the account refers as insert the difference called a 'balance' between the two sides of an account, then total and rule of the account. Normally, done at the end of a period (usually a month, a quarter, or a year).

Balance Sheet: A report that details the various assets and liabilities of a business at a point in time, usually the end of an accounting period. It must balance, i.e., debits must always equal the credits. It is also called as a financial statement of the concern. In simple it is a statement which is prepared to know the financial position of the concern.

Bank Cash Book: A cash book that only contains entries relating to payments into and out of the bank.

Bank Loan: An amount of money advanced by a bank that has a fixed rate of interest is charged on the full amount, and is repayable by a specified future date.

Bank Payment: A transaction posted that reflects the payment for goods or a service where there has either been no invoice or the invoice is paid as soon as it is received thereby removing the need to post an invoice onto the purchase ledger.

Bank Receipt: A transaction posted that reflects the receipt of money for goods or a service where there has either been no invoice or the invoice is paid as soon as it is received thereby removing the need to post an invoice onto the sales ledger.

Bank Reconciliation: The process of matching and comparing figures from accounting records against those presented on a bank statement. The balance of the accounting ledger should reconcile/match to the balance of the bank statement.

Bank Reconciliation Statement: Bank reconciliation statement is a statement which comparing the Cash Book balance with the bank statement balance.

Bank Statement: A copy issued by a bank to a customer showing the customer's current account maintained at the bank.

Bankrupt: In simple, bankrupt means insolvent. A person, firm, or corporation that has been declared insolvent through a court proceeding and is relieved from the payment of all debts after the surrender of all assets to a court-appointed trustee.

Bankruptcy Order: When the court order making an individual bankrupt called as bankruptcy order.

Bill of Materials (BoM)**:** A list of the other products (or components) that are needed to makeup a product. For example, a tool kit may have a bill of materials listing the following components — a tool box, a spanner set and a screwdriver.

Bid Price: A bid price is the highest price that a buyer (i.e., bidder) is willing to pay for a good. It is usually referred to simply as the "bid". In the context of stock exchange the bid price is the highest price a buyer of a stock is willing to pay for a share of that given stock. But on the other hand, the ask or offer price on the other hand is the lowest price a seller of a particular stock is willing to sell a share of that given stock.

Bidder: The person who has placed a bid in the book building process.

Bonus Shares: When the shares issued to existing shareholders free of charge called as bonus shares. It is also known as scrip issues. Bonus can be paid either in cash or in the form of *shares*. Cash bonus is paid by the company when it has large accumulated profits as well as cash to pay dividend. Many a time, a company is not in a position to pay bonus in cash in spite of sufficient profits because of unsatisfactory cash position or because of its adverse effects on the *working capital* of the company. In such a position, the company pays a bonus to its shareholders in the form of shares is known as a **bonus share**.

Bookkeeping: The process of keeping the records of data relating to accounting transactions in the accounting books, or software known as bookkeeping.

Books of Prime Entry: The books in which the details of the organization's transactions are initially recorded prior to entry into the main ledger.

Books of Original Entry: Books where the first entry recording a transaction is made. Sometimes, it also referred to as books of prime entry.

Break Even Point: The level of activity at which total revenues equal total costs called as break even point.

Budget: A forecast of expected income or expenditure over a specified period of time known as budget.

Business Entity Concept: Assumption that only transactions that affect the business and not the owner's private transactions will be recorded. For the accounting transaction business and owner are two separate hand.

Business-to-business (B2B): Businesses purchase from other businesses and/or sell their goods and services to other businesses.

Business-to-customer (B2C): Business-to-customer refers as businesses which sell to consumers.

Burn Rate: The rate at which a company spends its money. Example: if a company had cash reserves of $120m and it was currently spending $10m a month, you could say that the current 'burn rate' the company will run out of cash in one year.

By-product: By-product means products of minor sales value that result from the production of a main product.

B Share: B shares receive shares as a form of income, instead of dividends and are therefore attractive to investors who have to pay a high rate of income tax.

Bank Base Rate: The bank base rate is set by the Bank of England and determines the cost of borrowing money. This base rate is used by commercial banks as a reference point when setting their own base rates. An increase in the base rate will increase the rates for mortgages and loans. However, savers will receive higher interest rates on their savings.

Basis Point: The basis point refers as a hundredth of one per cent (0.01 per cent).

Bear Market: It arises when the security prices are a widespread decline and bears believe that share prices will fall. They sell securities which they do not at present own, in the hope that they can buy them at a lower price later once the price has fallen.

Beta: It is a tool to measure of systemic risk. It determines how volatile a share price is? The beta measures the distance between the high points and the low points, so the higher a share's beta, the more volatile it is.

Bid-offer Spread: It is also known as bid-ask or buy-sell spread. The bid-offer spread for securities such as *stock, futures contracts, options, or currency pairs* is the difference between the price quoted by a *market maker* for an immediate sale (bid) and an immediate purchase (ask). In simple, the offer price is what you pay if you want to buy an investment and the bid price is what you get when you want to sell. The difference between the offer price and the bid price is known as the spread.

Big Bang: The deregulation of the London Stock Market that took place in October 1986, when the London Stock Exchange went fully electronic.

Blue Chip: In general the term blue chip means large and creditworthy company in the market.

Bond: A bond is a long-term. debt. This a loan to a company or government in return for a fixed level of income (coupon) and a guaranteed return of the investment at the end of the bond's life (known as 'the maturity date').

Book Value: It is an accounting term and a company is determined the book value by adding up all of the company's assets and then deducting all of its debt and liabilities. The book value of a company's assets or securities may have little relationship to the market value of the company.

Bridging Loan: A short-term loan to provide temporary financing until more permanent financing is arranged. It is often used by purchasers of a property who need funds for a limited period of time.

Broker: A person who do the act of intermediary selling financial products.

Bull Market: It arises when the security prices is a widespread rise. A 'bull' investor believes that share prices will rise and they buy securities in the hope that they will be able to sell them at a profit later once the price has risen

Buyback: A company may buyback its own shares in order to reduce the overall number of shares available on the market. This will usually have the effect of increasing the share price.

Buyout: When a company's management team buys all the company's shares and takes complete control of the company called a Management Buy-out (MBO).There are several variants of any MBO.

- **Leverage buyout —** These occur where the purchase price is beyond the financial resources of the managers and the bulk of the acquisition is financed by loan capital provided by other investors.
- **Employee buyout —** When all employees are offered a stake in the new business is called employee buyout.

C

Call: When shares are issued only part of their cost is usually paid at the time of application and allotment. A "call" is a demand by the company for part or all of the outstanding sums to be paid.

Called Up Share Capital: The face value of shares for which payment has been requested to the shareholder.

Capital: In general, capital is the money invested in the business. Shareholder's capital employed refers to share capital and reserves only.

Capital Employed: Capital employed is usually represented as *fixed assets plus current assets* minus *current liabilities* or *non-current assets* plus *working capital:*

Capital Employed = Total Assets "Current Liabilities"

Capital Expenditure: Capital expenditure is the expenditure which is generally incurred for long period. Expenditure incurred on the acquisition of an asset, such as premises, motor vehicles, plant or machinery that will be used within the business over a period of years.

Capital Gain: Profit made on selling an asset for more than its original purchase price.

Capital Gains Tax: Tax paid on the profit made on selling an asset for more than its original purchase price, i.e., the capital gain.

Capitalization: Capitalization/market capitalization/market cap is a measurement of size of a business enterprise or corporation equal to the *share price* times the number of *shares outstanding* of a *public company.* Capitalization could represent the public opinion of a company's *networth* and is a determining factor in *stock valuation*. It also the sum of a *corporation's long-term debt, stock* and *retained earnings* also called ***invested capital.*** The *market price* of an entire *company,* calculated by multiplying the number of *shares outstanding* by the *price per share.*

Capital Redemption Reserve: A 'non-distributable' reserve created when shares are redeemed or purchased other than from the proceeds of a fresh issue of shares called as capital redemption reserve.

Capital Reserve: It is that part of shareholders' funds that comes from accumulated capital surpluses. For example, an upward revaluation of capital assets. The term is also used in everyday sense to refer to accumulated surplus profits.

Carriage Inwards: Carriage inwards means the cost of transport of goods into a business.

Carriage Outwards: Carriage outwards means the cost of transport of goods out to the customers of a business.

Cash Book: It is a book used to record details of cash moving in and out of the bank current account.

Cash Flow: Cash flow refers to the movement of cash into or out of a business, a project, or a financial product. It is usually measured during a specified period of time.

Cash Flow Statement: In financial accounting, a cash flow statement also known as ***statement of cash flows*** or ***funds flow statement***. The cash flow statement is concerned with the flow of cash in and cash out of the business. As an analytical tool, the statement of cash flows is useful in determining the short-term viability of a company.

Cash Payment: A transaction posted that reflects the payment for goods or a service where there has either been no invoice or the invoice is paid as soon as it is received thereby removing the need to post an invoice onto the purchase ledger.

Cash Receipt: A transaction posted that reflects the receipt of money for goods or a service where there has either been no invoice or the invoice is paid as soon as it is received thereby removing the need to post an invoice onto the sales ledger.

Charge Card: It is one type of payment card that requires the cardholder to settle the account in full at the end of the specified period; e.g., American Express and Diners Cards. Holders have to pay an annual fee for the card.

Chart of Accounts: A list of all the nominal accounts used by a business and used to analyze income, expenditure, assets, liabilities and capital; together with the way such categories are assigned to the Balance Sheet or Profit and Loss report.

Clearing: The process by which amounts paid by cheque from an account in one bank are transferred to the bank account of the payee.

Close of Account: Close of account means totalling and ruling of an account on which there is no outstanding balance.

Closing Balance: The balance of an account at the end of an accounting period and the balancing figure is then carried forward to the next accounting period.

Columnar Purchase Day Book: A purchase day book used to record all items obtained on credit and it has analysis columns so that various types of expenditure can be grouped together in a column. It also called a purchases analysis book.

Columnar Sales Day Book: A sales day book used to show the all credit sales for a period and organized in analysis columns according to how the information recorded is to be analyzed. It also called a sales analysis book.

Compensating Error: Error in computation or in recording of *accounting data* that is neutralized (counter balanced) by an equal and opposite error. Since compensating *errors* do not show up in the total, they are difficult to locate through *statistical methods*.

Compound Interest: Compound interest is the interest earned during a period calculated on the basis of the original sum together with interest earned from previous periods. If the compound interest is C%, and the original investment is ₹ P, then the value of the investment after n years is:

₹P × ((100 + c)/100)n

Consistency: Keeping to the same method or recording and processing business transactions known as consistency.

Consolidation Accounting: This term means bringing together into a single balance sheet and profit and loss accounts the separate financial statements of a group of companies. It also known as group financial statements.

Contra Entry: The adjustment made to balance transactions in one ledger with another. The most common type of contra entry is balancing outstanding purchase ledger transactions against outstanding sales ledger transactions where both sell to and buy from the same company.

Contribution: Contribution means the difference between sales income and marginal cost/variable cost. C= Sales – Variable cost

Corporation Tax: A form of direct taxation levied on the profits of companies. The rate is determined each year in the Finance Act.

Cost Centre: A production or service location, function, activity, or item of equipment whose costs may be attributed to cost units.

Cost of Sales/Cost of Goods Sold: In general term Cost of Goods Sold refers as the direct costs attributable to the production of goods sold by a company. This includes material cost and direct labour cost and excludes indirect cost like advertising or R&D. COGS appear on the income statement. Method of calculating cost of goods sold is: **Opening stock + Purchase of goods – Closing stock**.

Cost Unit: A unit of product or service in relation to which costs are ascertained.

Credit: One side of the double-entry bookkeeping process, representing negative figures on the balance sheet reductions in assets; increases in liabilities and capital, and income on the profit and loss report.

Credit Card: A credit card is a small plastic card issued to users of a system of payment. It allows its holder to buy goods and services up to a pre-arranged limit based on the holder's promise to pay for these goods and services.

Credit Note: In simple credit note means, sent from the seller to the customer when goods are returned, in order to cancel or reverse all or part of an invoice. It also named as **credit memorandum or credit memo** issued by a seller to a buyer.

Creditors: Third parties to whom money is owed by the business.

Current Account: A bank account used for regular payments in and out of the bank.

Current Asset: A current asset is an asset that's worth can be easily realized. For example, money in the bank or in petty cash, debtors, prepayments, or stock.

Current Liability: A current liability is a debt owed by the company with the short period of time. For example, creditors, accruals or an overdraft that will be cleared in the short-term.

Current Ratio: The current ratio is a financial ratio that measures whether or not a firm has enough resources to meet *short-term debt obligations*. The higher the *ratio*, the more *liquid* the *company* is. If the current *assets* of a company are more than twice the current *liabilities*, then that company is generally considered to have good *short-term financial strength*.

$$\text{Current Ratio} = \text{Current Assets} \div \text{Current Liabilities}$$

C Shares: A class of share issued by the investment trusts that carries an ongoing fee.

Call Option: An option that gives the holder the right to buy shares at a specified price on a specified date in the future.

Capital Growth: The term capital growth means the increase in value of assets and investments.

Charting: Chartists believe that investment opportunities can be spotted by analyzing changes in share price trends.

Churning: The term used to describe the excessive trading of a client's account by a broker in order to increase their commissions.

Commission: The charge made by a stockbroker or the fee a financial adviser makes from a company whose products have been sold, generally based on the value of the sale.

Commodities: Commodity markets are markets where raw or primary products are exchanged. These raw commodities are traded on regulated commodities exchanges, in which they are bought and sold in standardized contracts.

Company Share Option Scheme: A scheme offered by companies to employees to encourage better performance. Participants are given the right to buy shares in the company in the future, usually at a discount.

Contract Note: Contract note is a statement to know the confirmation of share purchase transaction.

Convertible Bonds or Loan Stock: Bonds/loan stock that gives the holder the right to convert to shares at a future date. The aim is to give investors a regular income whilst also giving them the chance to share in the capital growth of the company at a later date. It is a hybrid security with debt- and equity-like features.

Corporate Bond: The bonds issued by a public company to the general public is called a corporate bond.

Coupon: The interest rate on a fixed-interest security.

Crest: The electronic system for settling share transactions, introduced in July 1997 by the London Stock Exchange, under which paper share certificates are no longer needed.

Cum Dividend: If a dividend is just about to be paid on a share then an investor buying a cum dividend share will be entitled to receive the dividend. If the share is ex-dividend, it means the dividend has already been paid out.

D

Day Book: A day book is a book that lists all transactions in the order that they arise. A day book for different types of transaction, e.g., a sales day book, a purchase day book, etc.

Debenture: The term debenture is used when a limited company receives money on loan, and certificates called debenture certificates are issued to the lender. Interest will be paid to the holder, the rate of interest being shown on the certificate. In simple, it is a acknowledgement of debt.

Debit: The left hand side of the double entry process, representing positive figures on the balance sheet (increases in assets; reductions in liabilities and capital), and expenditures on the profit and loss report.

Debit Card: A card linked to a bank account and used to pay for goods and services by debiting the holders account. It usually combined with other facilities such as ATM and cheque guarantee card functions.

Debit Note: Debit note is a *letter* issued by a *seller* to the customer the *amount* owed by them. An invoice is a type of debit note. It is also called debit memo.

Debtors: A debtor is an entity that owes a debt to someone else and it may be an individual, a firm, a government, a company or other legal person. The debtor is more often referred to as a borrower.

Debtors' Prison: A debtor's prison is a prison for those who are unable to pay a debt.

Depletion: An accounting term describing the amortization of assets that can be physically reduced. For example, coal mines, oil fields and other natural resources are depleted on company accounting statements.

Deposit Account: A bank account for money to be kept in for a long time. Normally, pay a higher rate of interest as compared to a current account.

Depreciation: In simple depreciation means decreasing the value of a fixed asset, due to use, obsolescence, etc., in the calculation of net profit.

Direct Costs: Director costs are those costs that can be traced to the item being manufactured directly.

Direct Expenses: Direct expenses are those expenses that are incurred in the actual manufacture and sale of the product or the sale and provision of the service, i.e., the expenses incurred by the business actually trading. For example, the wages of the machine operators, the power to run the machines, the wages and commission of the sales staff, the cost of advertising and any sales promotions.

Directors: Director is a person who officials appointed by shareholders to manage the company for them.

Discount: The amount by which a bill is reduced and can be given for a variety of reasons, e.g., buying in bulk, spending large amounts, being a preferred customer (trade discounts) or settlement discount.

Discount Allowed: A deduction from the amount due, given to the customers, who pay their accounts within the time allowed. It appears as an expense in the profit and loss account.

Discount Received: A deduction from the amount due, given to a business, by a supplier, when their account is paid before the time allowed has elapsed. It appears as income in the profit and loss part of the trading and the profit and loss account.

Dishonoured Cheque: A cheque which the drawer's bank has refused to make payment upon.

Dissolution: When the relation between all the partners of the firm comes to an end, this is called dissolution of the firm.

Dividend: It is one type of cash reward to the shareholder upon their investment in form of share given by the company out of profits.

Double Entry: A system of bookkeeping in which every transaction of a business is entered as a debit in one account and as a credit in another. Every transaction must have an equal or zero effect on both sides of the accounting equation.

Drawee: The *party* directed to *pay* the *amount* of a *draft* or cheque. In simple, who will have to pay the funds to the payee.

Drawer: Drawer is the person who is writing and signing a cheque.

Drawings: Cash or goods taken from the business for the owner's personal use. It applies only to sole traders and partnerships. It does not count as an expense in the profit and loss account and must be included in the financial section of the balance sheet.

Dual Aspect Concept: This state that there are two aspects of accounting, one represented by the assets of the business and the other by the claims against them. The concept states that these two aspects are always equal to each other. In other words, this is the alternate form of the accounting equation:

Assets = Liabilities + Capital

Dual aspect concept is known as “Double Entry Bookkeeping System”.

Day Trading: The trade of buying and selling stocks by individuals known as day traders during a trading day. The aim is to make a profit on the day and not hold stocks at the close of the trading session.

Deflation: The rate at which the general level of prices for goods and services is decreasing. It is opposite of the inflation.

Dematerialization: The increase in electronic technology and the introduction of systems, such as, crest in the stock exchange has meant that paper share certificates are no longer needed. Instead ownership of shares can be logged electronically in a crest account and contract notes, confirmation of share transactions, can be sent electronically.

Demutualization: The process of changing the legal structure of a company from a mutual form of ownership to a stock form of ownership.

Depositary Receipt: A certificate which gives the holder, ownership of a specified number of shares in a company that have been deposited with a financial institution.

Derivatives: An agreement between two parties — that has a value determined by the price of something, i.e., called the underlying which involves the right to buy or sell the underlying instrument at an agreed price. The value of a derivative instrument depends on the value of another asset.

Discount Rate: Discount rate is the rate used to calculate the present value of future cash flows.

Discounted Rate Mortgage: A mortgage which guarantees that the interest rate charged will be lower than the lender’s standard variable rate. The lower rate offered is usually set for a specified period of time and reverts to the standard rate after that period.

Discretionary Management: A broker who has authority to execute all decisions regarding stocks and shares on behalf of his client without getting prior approval.

Distribution: The term distribution generally refers as the payment of dividends to shareholders from the company’s profits.

Dividend Yield: The dividend yield is the return getting for investing in a company and it is calculated by dividing the dividend by the current share price, expressed as a percentage. The gross dividend yield is used in preference to the net dividend yield, so that investors can make a direct comparison with gross interest yields from loan stocks and gilts.

Dow Jones Industrial Average: ‘The Dow’ is one of the main USA share indices which monitors the performance of 30 industrial companies traded on the New York Stock Exchange.

E

Economic Order Quantity (EOQ): A mathematical method of calculating the amount of stock that should be ordered at a time and how frequently to order it, so that the overall total of the costs of holding the stock and the costs of ordering the stock can be minimized.

Endorsement: A means by which someone may pass the right to collect money on a cheque.

Enterprise Resource Planning (ERP) System: A suite of software modules, each of which relates to a function of the organization, such as order processing, production, creditor control, debtor control, payroll, marketing, and human resources.

Equity: In simple the equity refers as the net assets or worth of a company after all creditors have been paid-off.

Equity Accounting: A method of accounting whereby a corporation will document a portion of the undistributed profits for an affiliated company in which they own a position. In simple it is a process of accounting for associated undertakings that brings into the consolidated profit and loss account the investor's share of the associated undertaking's results and that records the investment in the consolidated balance sheet as the investor's share of the associated undertaking's net assets.

Error of Commission: Where a correct amount is entered, but in the wrong persons account.

Error of Omission: Where a transaction is completely omitted from the books of accounts.

Error of Original Entry: Where an item is entered, but both the debit and credit entries are of the same incorrect amount.

Error of Principle: Where an item is entered in the wrong type of account, e.g., a fixed asset in an expense account.

Exception Reporting: A process of issuing a warning message to decision-makers when something unexpected is happening: for example, when expenditure against a budget is higher than it should be.

Expenses: An **expense** or **expenditure** is an outflow of money to another person or group to pay for an item or service, or for a category of costs. For a tenant, rent is an expense. But in simple language any *cost* of doing *business* resulting from revenue-generating activities.

Early-redemption Penalty: A financial penalty that is levied by mortgage lenders for switching to another lender and payable on certain types of loans, such as, discount and fixed-interest rate loans upon early redemption or part redemption during the specified early redemption period.

Earnings Per Share (EPS)

The EPS is calculated by dividing the earnings (pre-tax profits) by the number of shares in issue. It is one of the key ratios is used in the valuation of shares as it expresses the amount of profit a company manages to make per share.

Emerging Markets: The term emerging markets means growing market. The stock markets based in developing countries that have a low income per head compared with the developed world. These are attractive markets for speculative investors in the Western countries because there is potential for rapid economic growth but at a higher economic and political risk.

Endowment Policy: A policy which combines investment with insurance and runs for a specific period. It builds up a cash value, generally on either a with profit or with unit-linked basis and is paid out at the end of the policy term or when you die (whichever is the earliest).

Enhanced Scrip Dividend: A dividend that is in the form of shares rather than cash and to encourage shareholders to take the scrip dividend the value of the shares is usually greater than the cash dividend.

Equity Capital: In simple it is called as owner's capital. The owners of the equity capital are collectively the owners of the company and they are the risk bearing shareholders as they benefit from capital growth if the share price rises but bear the highest risk if the company is wound up.

Ethical Investments: Investments that are made in companies that make a positive contribution to the world and are kind to the environment. Most ethical investments are made through a managed investment fund such as a unit trust or pension fund, as it is difficult for an individual investor to judge whether a particular company is ethical or not.

Euro: The Euro is Europe's new unit of currency that was officially launched in January 1999 in eleven countries in the European Union. All of the national notes and coins in the relevant countries will ceased to be legal tender by the end of February 2002; however, banks will continue to accept them until 2004.

Euro Sterling Bond: Euro sterling bond is a corporate bond issued by a UK company that wants to raise money in the international markets instead of its home market.

Ex-dividend: A share sold without the right to the next declared dividend payment.

Execution Only: A type of share dealing service where the customer makes his or her own investment decision and the stock broker just carries out the transaction.

Exercise Price: The price at which the underlying security can be purchased (call option) or sold (put option). The exercise price is determined at the time the option contract is formed.

Exit Charge: Exit charge is one type of payment that has to be made by an investor selling an investment.

Extraordinary General Meeting (EGM): A meeting called either by the Board of Directors or shareholders of a company to discuss special business and it include matters, such as, a proposed takeover or merger, or a substantial change in the way the business is to be run.

Factoring: Factoring is a financial transaction whereby a business sells its accounts receivable, i.e., invoices to a third party called a factor at a discount in exchange for immediate money with which to finance continued business.

Fallacy of Omission: Leaving out information that is relevant but that could weaken your position.

Favourable Variance: A difference arising that is apparently 'good' from the perspective of the organization. For example, when the total actual labour cost is less than the total standard cost.

FIFO: FIFO stands for first-in-first-out, meaning that the oldest inventory items are recorded as sold first. It is an accounting methods for managing inventory and financial matters involving the money a company tied up within inventory of produced goods, raw materials, parts, components, or feed stocks. So, the costs of items in stock always reflect the most recent purchases.

Floor Price: The term floor price means the minimum offer price below which bids cannot be entered. The issuer company in consultation with the book running lead managers fixes the floor price.

Final Accounts: It refers to statements produced at the end of accounting periods, such as the trading and profit and loss account and the balance sheet. Nowadays, the term 'financial statements' is more commonly used.

Finance Lease: An agreement whereby the lessee enjoys substantially all the risks and rewards associated with ownership of an asset other than legal title.

Financial Accounting: Financial accounting is concerned with recording financial transactions which already happened and with providing information from the accounting records, for example in order to prepare VAT returns, and trial balance (the starting point for the preparation of the profit and loss statement and balance sheet).

Financial Modelling: Financial modelling is the process of manipulating accounting data to generate forecasts and perform sensitivity analysis.

Fixed Assets: Assets which the business intends to retain for the coming year rather than convert into cash. Typical fixed assets include property, office equipment, motor vehicle, etc. Assets which have a long life bought with the intention to use them in the business and not with the intention to simply resell them.

Fixed Capital Accounts: Capital accounts which consist only of the amounts of capital actually paid into the firm.

Fixed Costs: Expenses which remain constant whether activity rises or falls, within a given range of activity.

Flexible Budget: A flexible budget is a budget which is changeable in by the nature. A budget which, by recognizing the difference in behaviour between fixed and variable costs in relation to fluctuations in output, turnover or other factors, is designed to change appropriately with such fluctuations.

Fluctuating Capital Accounts: Capital accounts whose balances change from one period to the next is called as fluctuating capital accounts.

Folio Columns: Columns used for entering reference numbers.

Forecasting: Taking present data and expected future trends, such as growth of a market and anticipated changes in price levels and demand, in order to arrive at a view of what the likely economic position of a business will be at some future date.

Face Value: The term used to describe value of a bond when it matures, also known as the 'nominal' or 'par' value.

Fee-based Adviser: An independent financial adviser who earns a living by charging a fee for advice rather than earning commission from financial companies for selling their products.

Final Dividend: The final dividend is paid after the annual accounts for the year have been published and after the proposed dividend has been agreed by the shareholders at the annual general meeting.

Financial Services Act, 1986: The Financial Services Act, 1986 has established regulations for firms in the investment service industry, including buying and selling of stocks. It has now been overtaken by the Financial Services and Markets Act, 2000 has centralized regulatory power in the hands of the Financial Services Authority.

Financial Services Authority (FSA): The single statutory financial regulator in UK. In order to do business in UK most financial service firms must get permission from the FSA. The FSA regulates banks, building societies, credit unions, insurance and investment firms and independent financial advisers.

Financial Times Stock Exchange 100 Index (FTSE 100): The FTSE 100 index is a share price index for 100 different shares quoted on the London stock exchange. The shares are intended to be of a sufficiently broad cross section, so that movements in the index of share prices would be typical of movements in the value of the portfolio of shares of an average investor.

Fixed Interest Security: A fixed interest security is an investment which has a return consisting of income in the form of interest payments and either a redemption value of the security when it eventually matures or the market value of the security if the investor sells it before maturity.

Fixed-rate Mortgage: A mortgage where the rate of interest is fixed for a set period of time. The advantage of this type of mortgage is that the investor can budget accurately.

Flexible Mortgage: A new type of mortgage that is becoming more popular, especially among the self-employed and other people who may experience uneven cash flow. It allows you to vary your monthly payments without any penalty and can also borrow, or 'draw down', from the loan when you need to and the ability to over pay can save you a lot of interest over the term of the loan.

Flotation or Floatation: Flotation is the process of making a company's shares available to the general public by obtaining a quotation on the stock exchange and also referred to as "going public" or "obtaining a stock exchange listing".

Front-end Loading: The initial sales charges that have to pay when invest in a mutual fund, such as, a unit trust. This charge is mainly for the cost of the adviser.

Future: A form of forward contract to buy or sell a set quantity of shares or commodities in the future at a preagreed price.

G

Garner V. Murrary Rule: This rule says that when a partnership firm is dissolved at that time, first of all, all partners shall bring the realization loss in cash in their profit sharing ratio. If any partner is found insolvent then the solvent partners who have credit balance in their capital Accounts shall bear the loss of the insolvent partner in their profit sharing ratio.

General Ledger: The general ledger, sometimes known as the nominal ledger. It is the main accounting record of a business which uses double entry bookkeeping and usually include accounts for such items as current assets, fixed assets, liabilities, revenue and expense items, gains and losses.

Going Concern Concept: The assumption that a business is to continue for the foreseeable future.

Goodwill: An intangible asset of a business reflecting its commercial reputation, customer connections, etc.

Gross Equity Accounting: A form of equity accounting applicable to joint ventures under which the investor's share of the aggregate gross assets and liabilities of the joint venture is shown on the face of the balance sheet and the investor's share of the joint venture's turnover is noted in the profit and loss account.

Gross Loss: When the cost of goods sold exceeds the sales revenue generally called as gross loss.

Gross Margin: A measure of the profitability of a business by which the gross profit is divided by the sales. It is usually expressed as a percentage.

Gross Profit: The difference between total revenue from sales and the total cost of purchases or materials, with an adjustment for stock.

Gearing: Gearing is the ratio of a company's debt to its assets and measures the financial risk of a company's capital structure. Due to the financial risk associated with gearing, higher gearing will increase the rate of return required by investors. Gearing is called leverage in US.

Gilt: Secure bonds issued by UK government also known as 'gilt edged securities' or 'fixed interest securities'. Gilts are bought at their par value or at face value. Most gilts are 'dated' which means that at a fixed date in the future, the par value will be repaid to the investor.

Gross: The gross amount is the amount before the deduction of tax.

Gross Redemption Yield: The return on a fixed interest security expressed as an annual percentage. The redemption yield consists of the capital and income return on the investment.

Gross Yield: The gross yield on an investment is the annual gross dividend or income received expressed as a percentage. The gross yield is used in preference to the net yield, because investors can make a direct comparison with (gross) interest yields from other loan stocks and gilts.

Guaranteed Income Bond: A single premium insurance bond which pays out a fixed amount of annual income and returns the original sum invested at maturity.

H

Hire Purchase Agreements: In simple it is called as instalment buying. It is the legal term for a contract, in these persons usually agrees to pay for goods in parts or a percentage at a time. It was developed in the United Kingdom and can now found in China, Japan, Malaysia, India, Australia, and New Zealand. It is also called closed-end leasing. In general it is a legal agreement by which an organization can obtain the use of an asset in exchange for payment by instalment.

Historical Cost Concept: Historical cost concept means the assets are normally shown at cost price.

Holding Company: A holding company is a company or firm that hold maximum voting power of other companies. It usually refers to a company which does not produce goods or services itself; rather its only purpose is owning shares of other companies.

Honorarium: A voluntary fee paid for a service which is usually free.

Hedging: A hedging is a position established in one market in an attempt to offset exposure to price fluctuations in some opposite position in another market with the goal of minimizing one's exposure to unwanted risk. There are many specific financial vehicles to accomplish this, including insurance policies, forward contracts, options, etc., perfect hedge produces a riskless portfolio.

I

Ideal Standard: A standard that is based upon the premise that everything operates at the maximum level of efficiency. It takes no account of normal losses, or of normal levels of downtime and waste.

Impersonal Accounts: All accounts other than the personal accounts called as impersonal account. Impersonal account generally categorieses as real and nominal accounts.

Imprest System: The imprest system is a form of financial accounting system and the most common imprest system is the petty cash system. The base characteristic of an imprest system is that a fixed amount is reserved, which will be replenished at the end of a period or when the circumstances request it. This replenishment is not credited on the imprest account, but from another source.

Income and Expenditure Account: An account for a non-profit-oriented organization to find the surplus or deficit made during a period.

Indirect Manufacturing Costs: Costs relating to manufacture that cannot be economically traced to the item being manufactured. It also known as 'indirect costs' and sometimes, as 'factory overhead expenses'.

Input Tax: When a company registered for value added tax (VAT) buys goods or services from another supplier, VAT is charged. This is known as input tax.

Inputs: In simple inputs means the purchases of goods and services.

Intangible Assets: Intangible assets are those assets which is invisible by the nature. It include copyrights, patents, goodwill, etc., they are salable but do not contain any intrinsic productive value.

Interest: It is one type of charge made on a loan or money received on a capital investment.

Interest on Capital: An amount at an agreed rate of interest which is credited to a partner based on the amount of capital contributed by him/her.

Interest on Drawings: An amount at an agreed rate of interest, based on the drawings taken out, which is debited to the partners.

Invoice: An invoice or bill is a commercial document issued by a seller to the buyer, indicating the products, quantities, and agreed prices for products or services the seller has provided the buyer. It indicates the buyer must pay the seller, according to the payment terms. The buyer has a maximum amount of days to pay these goods and are sometimes offered a discount if paid before.

Irrelevant Costs: It is a managerial accounting term that represents a cost, either positive or negative, that does not relate to a situation requiring management's decision.

Income Share: Class of share within a split capital investment trust that receives a high dividend yield.

Indemnity Insurance: An insurance which is designed to protect a mortgage lender against the risk of you defaulting or not being able to repay the mortgage. The policy is usually imposed upon by the lender at the start of the loan and the premium payable is determined by the level of perceived risk to the home lender of you defaulting on the loan.

Index-linked Investment: An investment that increases in value each year by the rate of inflation or by a fixed percentage above inflation. Index-linking is mostly associated with income-producing investments, such as, government issued gilts.

Inflation: The general increase in prices overtime and effect of reducing the buying power of money. The most common measure of inflation is the Retail Prices Index (RPI).

Initial Public Offering (IPO): An initial public offering (IPO) referred to simply as an "offering" or "flotation," is when a company issues common stock or shares to the public for the first time. In simple when a new share issue by a company coming to the stock market for the first time.

Insider Dealing or Insider Trading: It refers to the illegal use of privileged information which, if made public, would significantly affect the share price. For example, if someone knows that a company is about to make an announcement which will affect the price of its shares; it would be an insider dealing if he/she uses that information to buys or sells shares in advance of the announcement to make a profit.

Interest Cover: The number of times the interest payments on debt can be covered by the company's profits.

Investment Trust: Investment trusts are companies whose business is to investment in the securities of a wide range of other companies. Like unit trusts, they pool together the money of many investors in order to invest it in a portfolio of companies which will be more varied than what small investors could achieve on their own.

J

Job Costing: A costing system that is applied when goods or services are produced in discrete jobs, either one item at a time, or in batches.

Job Product: Two or more products, each of which has significant sales value, created in the same production process.

Joint Ventures: When two businesses join together for a set of activities and agree to share the profits.

Journal Entries: In accounting, a journal entry is a logging of transactions into accounting journal items. It can consist of several items, each of which is either a debit or a credit. Sometimes referred to as a 'Journal'.

Joint Life Annuity: An annuity that continues after the death of the first partner and ends after the death of the second partner.

Junk Bond: A junk bond is a high-risk, non-investment-grade *bond* with a *low* credit rating, it is the opposite of *investment-grade bond*.

L

Ledgers: A ledger is the principal book for recording of business transactions. The details of customers and their transactions are recorded in the sales ledger; suppliers and their transactions are recorded in the purchase ledger. All ledgers are amalgamated in the nominal ledger by the posting of balances from the individual ledgers.

Liabilities: Amounts owed by a business to third parties including suppliers, banks, tax authorities and employees.

LIBID: The London Interbank Bid Rate (LIBID) is a bid rate; the rate bid by banks on Eurocurrency deposits (i.e., the rate at which a bank is willing to borrow from other banks).

LIBOR: London Interbank Offered Rate (LIBOR, pronounced LIE-bore) is a daily reference rate based on the interest rates at which banks offer to lend unsecured funds to other banks in the London wholesale money market. LIBOR will be slightly higher than the London Interbank Bid Rate (LIBID), the rate at which banks are prepared to accept deposits.

LIFO: LIFO stands for last-in-first-out, meaning that the most recently purchased items are recorded as sold first.

Limited Company: A limited company is a company with shareholders whose liability is limited by shares, which is the most common form of privately held company. Most large businesses will be formed as limited companies. A limited company may be "private" or "public".

Limited Liability: A limited liability means the liability of the members are limited up to the value of their share. If the business of a sole trader or a partnership is declared bankrupt then the owner or owners are personally liable for any outstanding debts of the business. However, the shareholders of a company have limited liability. They will lose is the amount they paid for their shares.

Limited Partner: A partner whose liability is limited to the capital he or she has put into the firm.

Liquidity: A measure of the ability of a debtor to pay their debts as and when they fall due and usually expressed as a ratio or a percentage of current liabilities.

Liquidity Ratios: Those ratios that relate to the cash position in an organization and hence its ability to pay liabilities when due.

Loan: A loan is a type of debt. It is an arrangement in which a lender loans money or property known as the principal or principle amount to a borrower and the borrower agrees to return the property or repay the money, usually along with interest, at some future point in time.

Lodgement: A lodgement is an enclave taken by and defended by *force of arms* against determined opposition made by increasing the size of a bridgehead into a substantial defended area, the rear parts of which — at the least — are out of direct line of fire. In simple it refer as an accumulation or a deposit.

Long-term Liabilities: Liabilities that do not have to be paid within twelve months of the balance sheet date.

Leverage: Leverage also known as gearing or levering refers to the use of debt capital to supplement equity capital. A firm with significantly more debt than equity is considered to be highly leveraged.

Leveraged Buyout: Purchase of a company by an institution using a high proportion of debt. A type of Management Buyout (MBO).

Limit Order An order of instructions that an investor gives to his broker, which sets out the limits that he/she is prepared to pay for investments.

Limited-life Trust: A trust which has been set up for a limited period, after which it will be wound up.

Liquidation: The process of ending the existence of a company. A company will go into liquidation if it is unable to pay its debts. In this situation the company's assets will be sold in order to pay-off its debts.

Listed Company: A listed company is one whose shares are included in the official list of securities and are dealt with by members of the stock exchange.

Loan Stock: Long-term debt issued by a company in order to raise capital for which interest is paid.

London International Financial Futures and Options Exchange (LIFFOE): LIFFOE allows investors and business enterprises to use financial futures to speculate or to hedge against risks of movements in gilt prices, interest rates, foreign currency exchange rates, shares prices and bond prices.

Low-start Mortgage: A mortgage that offers a low interest rate initially which then rises to the lender's standard variable rate after a set date agreed at the start of the mortgage.

Loan to Value (LTV): The ratio between the size of the loan you are seeking and the mortgage lenders valuation of the property.

London Stock Exchange (LSE): The London stock exchange is a primary capital market in which companies and other institutions can raise funds by issuing shares or loan stock. However, it is more important as a secondary market for buying and selling existing securities.

M

Main Ledger: Main ledger is the ledger where the double-entry takes place of all transactions of the business.

Management Accounting: Management accounting or managerial accounting is concerned with the provisions and use of accounting information to managers within organizations, to provide them with the basis to make informed business decisions that will allow them to be better equipped in their management and control functions.

Manufacturing Account: A financial statement which shows production costs only and it will include direct materials and labour costs and the production overhead. In simple it refers an account in which production cost is calculated.

Margin: The purchase and sale of a good may be shown as Cost Price + Profit = Selling Price. The profit when expressed as a fraction, or percentage, of the selling price is known as the margin.

Margin of Safety: The gap between the level of activity at the break even point and the actual level of activity.

Marginal Costing: Marginal costing is also known as variable costing. Change in the total cost arises when the quantity produced changes by one unit, i.e., cost of producing one more unit of a good. It includes only variable costs i.e. direct materials, direct labour and variable overhead.

Mark-up: The purchase and sale of a good may be shown as Cost Price + Profit = Selling Price. The percentage added to the cost price to provide a profit is known as the mark-up.

Master Budget: In simple master budget is a summary of all individual budget.

Materiality Concept: The materiality concept is the principle that trivial matters are to be disregarded in accounting, and all important matters are to be disclosed. The materiality concept is an established, recognized accounting convention.

Memorandum Joint Venture Account: A memorandum account outside the double entry system where the information contained in all the joint venture accounts held by the parties to the joint ventures are collated, the joint venture profit is calculated and the share of profit of each party is recorded in order to close-off the account.

Merchant Banker: An entity registered under the Securities and Exchange Board of India (Merchant Bankers) Regulations, 1999.

Minority Interests: Minority interest in business is an accounting concept that refers to the portion of a subsidiary corporation's stock that is not owned by the parent corporation. The magnitude of the minority interest in the subsidiary company is always less than 50% of outstanding shares. Minority interest is an integral part of the enterprise value of a company.

Money Measurement Concept: The concept that accounting is concerned only with facts measurable in monetary terms, and for which purpose measurements can be used that obtain general agreement as to their suitability.

Market Capitalization: The market value of a company which is calculated by multiplying the number of shares in issue by the current price of the shares.

Market Maker: Dealers on the stock market who buy and sell stocks and shares on their own behalf to make a profit.

Maturity: Term used to describe the period when an investment comes to end, and, in the case of bonds, loan stock, or debentures, when the nominal capital is repaid to the holder and it also known as redemption.

Mortgage Indemnity Guarantee (MIG): An insurance which is designed to protect a mortgage lender against the risk of defaulting or not being able to repay the mortgage. The policy is usually imposed upon by the lender at the start of the loan and the premium payable is determined by the level of perceived risk defaulting on the loan.

Mortgage Protection Policy: A life insurance policy that pays off your mortgage if you were to die during the mortgage term.

Mutual Funds: A mutual fund is a professionally managed type of collective investment scheme that pools money from many investors and invests typically in investment securities (stocks, bonds, short-term money market instruments, or commodities). Unlike investment trusts mutual funds are open-end funds where the investor may redeem his/her shares at anytime at the prevailing market price.

N

Narrative: A description and explanation of the transaction recorded in the journal called as narrative or sometime it also called as narration.

Negative Contribution: The excess of direct costs allocated to a section of a business over the revenue from that section.

Negative Goodwill: The name given to the amount by which the total purchase price for a business of a limited company has taken over is less than the valuation of the assets. The amount is entered at the top of the fixed assets in the balance sheet as a negative amount.

Negotiation: In simplest terms, negotiation is a discussion between two or more disputants who are trying to workout a solution to their problem. Negotiations typically take place because the parties wish to resolve a problem or a dispute between them.

Net: The term net means the amount that remains after all deductions have been made.

Net Book Value (NBV): The net value of an asset. Equal to its original cost (its book value) minus depreciation and amortization. Also called net book value and depreciated cost.

Net Current Assets: Net Current Assets = Current Assets — Current Liabilities. Same as called working capital.

Net Loss: Where the cost of goods sold plus expenses is greater than the revenue.

Net Present Value (NPV): The sum of the present values of a series of cash flows.

Net Profit: The amount earned by a company after expenses. It calculated as;

Net Profit = Gross Profit – Expenses

Net Realizable Value (NRV): The amount that would be received for the immediate sale of stock, after accounting for any costs associated directly with the sale.

Net Worth: The value of a business as represented by subtracting its liabilities from its assets;

Assets – Liabilities = Net Worth

Nominal Account: Accounts which is not touchable and visible only to feel. It refers as all types of expenses, revenue and capital.

Nominal Ledger: A nominal ledger also known as a general ledger, or as speed codes or cost centers, allows to keep track of which areas of business generate what proportion of income and expenditure. Even in a small business, this can be useful for enabling management to decide which areas to concentrate on promoting, and where costs need to be better controlled.

Normal Losses: Losses arising in the production process that could not be avoided.

National Association of Securities Dealers Automated Quotations system (NASDAQs): NASDAQ is the second largest equity market in the USA and lists thousands of US and foreign companies. In recent years it has attracted a lot of high technology companies. The stock exchange market offers electronic trading using computers and a vast telecommunications network.

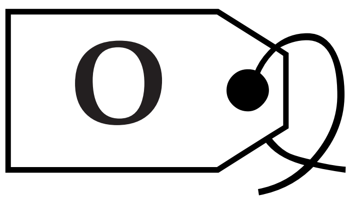
National Savings Certificates (NSC): A range of tax-free investments from the government that pay a guaranteed return. An attractive investment for tax payers, especially those paying at the higher level.

Net Asset Value (NAV): The Net Asset Value of a company is the total value of all its assets less its liabilities.

Net Yield: Net yield means the annual return on an investment after tax.

New Issue: Shares that are offered to the general public on the stock exchange for the first time.

New York Stock Exchange (NYSE): The largest and oldest stock exchange in the US, located on Wall Street in New York.



Opening Balance: Opening balance is the balance of an account when it is initially opened, or the balance carried over from the previous accounting period, (i.e., last accounting periods' closing balance.)

Operating Lease: An agreement whereby the leaser retains the risks and rewards associated with ownership and normally assumes responsibility for repairs, maintenance and insurance.

Operating Profit: Operating profit is the profit, which is Gross Profit — Expenses.

Order Book: It is an 'electronic book' that shows the demand for the shares of the company at various prices on a real time basis.

Overdraft: A facility granted by a bank that allows a customer holding a current account with the bank to spend more than the funds in the account. Interest is charged daily on the amount of the overdraft on that date and the overdraft is repayable at any time upon request from the bank.

Overheads: In simple the term overheads means all indirect expenses which is incurred in the business. For example: factory expenses, administrative expenses, research and development expenses, etc.

Overtrading: Overtrading is a term in financial statement analysis. It occurs when companies expand its own operations too quickly or aggressively. Overtraded companies enter a negative cycle, where increase in interest expenses negatively impact net profit leads to lesser working capital.

Offer Price: Offer price is the price at which you buy shares or units.

Open-ended: Investment fund which has no set limit either in time or money.

Option: An option is a type of financial instrument classed as derivatives because they derive their value from underlying assets. An option gives its holder the right, but not the obligation, to buy or to sell some asset on or before the option's expiration at an agreed price, the strike price. The right to buy is called a 'call option' and the right to sell is called a 'put' option.

Orphan Assets: These are the surplus assets which a life insurance company has once it has met all its liabilities to its policyholders and shareholders.

Output Tax: When the company sells its own goods or services it charges its customers VAT. This is know as output tax.

P

Paid-up Share Capital: Paid-up share capital is the total amount that shareholders of a company have paid to the company for their fully-paid shares.

Parent Undertaking: An undertaking which controls or has a dominating influence over the affairs of another undertaking.

Pareto Principle: The Pareto principle also known as the 80-20 rule. The law of the vital few and the principle of factor sacristy, states that, for many events, 80% of the effects come from 20% of the causes. Business management thinker Joseph M. Juran suggested the principle and named it after Italian economist Vilfredo Pareto, who observed that 80% of income in Italy went to 20% of the population.

Partnership: A partnership is a group of individuals who are trading together with the intention of making a profit. It usually comprise between two and twenty partners.

Payee: The person to whom money is to be, or has been paid called as payee.

Paying-in Slip: A form used for paying money into a bank account with the bank the account is held.

Personal Account: The personal account is the account which refers as any name in the world.

Personal Identification Number (PIN): A secret number issued by a bank to a customer so that the customer may use a debit or credit card in an ATM.

Petty Cash Book: A petty cash book is the book which record all the small payment in the business.

Postings: The processing of an accounting transaction, or the entering of a transaction on your accounts programme.

Pre-incorporation Profit or Loss: A profit or loss that arises immediately before a limited company is legally incorporated. Any such profit will be treated as capital profit not for distribution while, for sake of prudence; any such loss will be set against post-incorporation profits.

Preference Shares: In simple preference shares are those shares which is not the equity shares. It usually carries no voting rights, but may carry priority over common stock in the payment of dividends and upon liquidation. Preferred stock may have a convertibility feature into common stock.

Preliminary Expenses: All the costs that are incurred when a company is formed.

Prepayments: A payment for goods or services before they are received, e.g., insurance paid one year in advance and accounted for over 12 months.

Present Value: The amount that a future cash flow is worth in terms of today's money.

Prime Cost: It is the cost of direct materials plus direct labour plus direct expenses.

Private Ledger: A ledger for capital and drawing accounts.

Process Costing: A costing system that is applied when goods or services are produced in a continuous flow.

Production Cost: Prime cost plus indirect manufacturing costs.

Profit: The excess of revenues over costs in a business.

Profit and Loss Report: A report that categorizes the income and expenditure of a business over an accounting period.

Provision: An amount written off or retained by way of providing for depreciation, renewals or diminution in value of assets, or retained by way of providing for any known liability of which the amount cannot be determined with 'substantial accuracy'.

Provision for Bad Debt: An amount put by for those debts which may not be paid. It appears as an expense on the profit and loss account and is deducted from the debtors control account.

Prudence: Ensuring that profit is not shown as being too high, or that asset are shown at too high a value and that the financial statements are neutral: that is, that neither gains nor losses are understated or overstated.

Public Company: A company that can issue its shares to the general public, and for which there is no maximum number of shareholders.

Public Sector: All organizations that are not privately owned or operated.

Purchased Goodwill: The difference between the amounts paid to acquire a part or the whole of a business as a going concern and the value of the net assets owned by the business.

Purchases: Goods or services bought for the purpose of making a direct sale, e.g., Material costs such as stationary that is resold, hardware that is resold, etc.

Purchase Credit Notes: It also known as a credit note or credit memorandum (memo). It is a commercial document issued by a seller to a buyer. The seller usually issues a credit memo for the same or lower amount than the invoice, and then repays the money to the buyer or sets it off against a balance due from other transactions. They are normally issued when goods or services are faulty or when the purchase invoice was incorrect.

Purchase Discounts: Purchase discounts may be given for a variety of reasons, e.g., buying in bulk, spending large amounts, being a preferred customer or settlement discount. It refers to just settlement discount or prompt payment discount.

Purchase Invoices: These are issued by suppliers as a request for payment in respect of the supply of goods or services.

Purchase Ledger: A purchase ledger is a system in accountancy by which a business records and monitors its creditors. It contains the individual accounts of suppliers from whom the business has made purchases on credit. The total balance outstanding should equal the balance of the creditors control account in the nominal ledger.

Purchase Payments: Payments made to suppliers in respect of invoices for the goods and/or services supplied.

Purchases Day Book: Book of original entry for credit purchases, and also called the purchases journal.

Par Value: The value of the security when it is first issued, also known as nominal value.

Passive Management: Management strategy to buy a well diversified portfolio to represent a broad-based market index without attempting to search out mispriced-securities.

Penny Shares: Shares that sells for just a few pence and are considered to be at a high risk and extremely volatile by most investors.

Placing: An arrangement whereby a new issue of shares are not offered to the general public, but instead are sold to a small number of investors, usually, institutional investors such as pension funds.

Portfolio: A portfolio is a collection of different investments that make up your total investment holding.

Preliminary Results: The results reported by a company for a full financial year before the publication of the company's annual report of accounts.

Premium: A measure of how far the share price of an investment trust is above its net asset value, expressed as a percentage of the net asset value per share.

Pre-tax Profits: A company's profits before the deduction of corporation tax.

Price-earnings Ratio (PE): The P/E ratio is the most important yardstick for assessing the relative worth of a share. It reflects the markets appraisal of the shares future prospects. A high P/E ratio suggests a company has good prospects of achieving above-average growth in the future. The P/E ratio of a company is calculated by dividing its share price by its earnings per share.

Profit and Loss Account: The profit and loss account is an important part of a company's annual accounts and gives the details of the company's trading performance for the previous financial year.

Prospectus: A document which has to be published by a company wanting to issue shares to the public in compliance with the rules and regulations of the stock exchange. It provides information on the company's business, its history, financial structure and future prospects.

Q

Quick Ratio: A ratio for calculating the liquidity position of a business. It is calculated as:

Quick Ratio = (Current Assets — Stock) ÷ Current Liabilities

Quotation: Quotation is a statement of the current market price of a service or security.

Quote: The highest bid price and the lowest offer price for a security at any particular time.

Quoted Company: A company which is listed on the stock exchange.

R

Real Accounts: Accounts in which touchable and visible generally called as real accounts. For example: property of all kinds is recorded.

Realization Concept: Only profits and gains realized at the balance sheet date should be included in the profit and loss account.

Receipt: A written acknowledgement that a specified article, sum of money, or shipment of merchandise has been received.

Receipts and Payments Account: A summary of the cash book of a non-profit-oriented organization.

Receivable: An amount awaiting receipt of payment.

Reconciliation: The process of agreeing accounting entries from one source, with entries from another source.

Reducing Balance Method: A method of calculating depreciation based on the principle that calculate annual depreciation as a percentage of the net-of-depreciation-to-date balance brought forward at the start of the period on the fixed asset.

Relevant Costs: This cost also called as avoidable cost or differential cost. A relevant cost is a cost that differs between alternatives being considered. Those costs of the future that will be affected by a decision.

Reserve Accounts: The transfer of apportioned profits to accounts for use in future years.

Residual Value: The net amount receivable when a fixed asset is put out of use by the business.

Resource Accounting: An accounting system based on normal commercial practice, including accruals and movements in cash flows.

Retention: An amount of money retained by a customer for a specified period of time after a service has been provided, to ensure that if anything should subsequently go wrong then it will be rectified.

Return on Capital Employed (RoCE): Return on Capital Employed = (Net Profit ÷ Capital Employed) × 100.

This ratio indicates how much profit in percentage terms is being earned from the money invested in the business.

Return on Owners' Equity: Net profit as a percentage of ordinary share capital plus all reserves. It abbreviated as ROOE. And the more common term in use for this return on shareholders' funds.

Returns: Goods returned to the business by a customer, or by the business to a supplier.

Returns Inwards: When the goods returned by customers called as return inward. Also known as 'sales returns'.

Returns Inwards Day Book: Book of original entry for goods returned by customers. It is also called the returns inwards journal or the sales returns day book.

Returns Outwards: When the goods returned to suppliers called as return outward. Also known as 'purchases returns'.

Returns Outwards Day Book: Book of original entry for goods returned to suppliers. It also called the returns outwards journal or the purchases returns book.

Revaluation Account: An account used to record gains and losses when assets are revalued.

Revenue: Revenue is income that a company receives from its normal business activities, usually from the sale of goods and services to customers. It is referred to as turnover.

Revenue Expenditure: Expenses needed for the day-to-day running of the business.

Revenue Reserves: The revenue reserve is that part of profit that has been not given to the shareholder but retained in the business for further growth. A balance of profits retained available to pay cash dividends including an amount voluntarily transferred from the profit and loss appropriation account.

Rights Issue: An offer to sell a new issue of shares by a company to its existing shareholders, usually at a price which is lower than the market price.

Rally: A sudden rise in the value of a share or market performance after a long fall.

Reaction: A reversal of a trend in the movement of share prices. For example, there will be a fall in the price of shares following a rally as everyone quickly tries to makes profits. Also known as a correction.

Redemption: The date a security, such as, a bond, preferred stock or mutual fund shares becomes repayable. It also called the maturity date.

Redemption Yield: The total return from a security, such as, a bond on its maturity date. It reflects both the income and capital gain/loss that it will make when it matures.

Registrar: An organization that maintains a register of the share owners and the number of shares held for a company. It also makes sure that the numbers of shares issued are not more than the number of shares authorized.

Repayment Mortgage: A mortgage where you pay-off both the capital and interest each month until you've completely repaid the loan at the end of the preagreed term.

Retail Prices Index (RPI): An inflationary indicator that measures the prices of a representative sample of household goods and services. It is a general indicator which is used to measure the rise or fall in the cost of living.

Retention Ratio: The proportion of the profits retained in a business after all the expenses usually including tax and interest are taken into account. The algorithm is retained profits divided by profits available for ordinary shareholders.

Retained Profits: The proportion of profits after tax that is not distributed as dividends but is reinvested in the company.

S

Sales: The term sales means the goods sold by the business in which it normally deals and bought with the prime intention of resale.

Sales Credit Notes: These are issued to customers in order to cancel sales invoices either in full or in part and normally issued when goods or services are faulty or when the sales invoice was incorrect.

Sales Day Book: Sales day book is the book which only the transaction relates with credit sales. It is a part of the subsidiary book.

Sales Discounts: Sales discounts may be allowed for a variety of reasons, e.g., buying in bulk, spending large amounts, being a preferred customer (trade discount) or settlement discount. In simple, it refers to just settlement discount or prompt payment discount.

Sales Invoice: Sales invoice is a document which showing the details of goods sold and the prices of those goods.

Sales Ledger: In simple it refers as the *record* of *daily sales*. It keeps track, in account order, of all invoices, credit notes and discounts sent to customers and all receipts received from customers and quickly referred to find the current status of any of the customer accounts. The total balance outstanding should equal the balance of the debtors control account in the nominal ledger.

Sales Receipts: These are made when invoices are paid-off by the recipient of the goods or services.

Sales Returns Day Book: Sales return day book is the primary record for recording credit notes.

S**ensitivity Analysis:** Sensitivity analysis is the analysis to see the what would be likely to happen if altering volumes and amounts. For example, a company may wish to know the financial effects of cutting its selling price. Also called 'what if' analysis.

Separate Valuation Concept: Recording and measurement rule that relates to the determination of the aggregate amount of any item. In order to determine the aggregate amount of an asset or a liability, each individual asset or liability that comprises the aggregate must be determined separately.

Settlement Discount: A CASH DISCOUNT or SETTLEMENT DISCOUNT is a percentage discount of the total invoice value that is offered to a customer to encourage that customer to pay up or settle the invoice earlier.

Shares: The division of the capital of a company into equal part and each equal part is called as share. Documents issued by a company to its owners (the shareholders) which state how many shares in the company each shareholder has bought and what percentage of the company the shareholder owns.

Share Discount: When a share is issued at a price below its par, or nominal value, known as share is issued at discount.

Share Premium: When a share is issued at a price above its par, or nominal value, known as share is issued at premium.

Simple Interest: Simple interest (I) is calculated by multiplying the amount invested sometimes called the principle, P by the length of time (T) the money is invested and the rate of interest (R) converted to a equation; that is:

$$I = (P \times R \times T)/100.$$

Single-step Income Statement: An income statement where all the revenues are shown as a single total rather than being split up into different types of revenue.

Sinking Fund: A sinking fund is a fund established by a government agency or business for the purpose of reducing debt by repaying or purchasing outstanding loans and securities held against the entity.

Sole Trader: In simple word sole trader means a single man business that trades under his or her own name. The owner is also the only party to benefit from the profits of the business, and taking money or goods out of the business is known as drawings. In simple, it is known as single man ownership business.

Source of Funds/Capital Employed: Source of funds refers as where the business collect the funds or any money invested into the business including share capital, reserves, and long-term loans. It is also called as capital employed.

Standard Cost: It is an estimated or predetermined *cost* of performing an *operation* or producing a good or *service*, under normal conditions. Standard costs are used as *target-costs* and are *developed* from *historical data analysis* and motion studies.

Standard Costing: It is a part of the technique costing. It is a control technique process that compares standard costs and standard revenues with actual costs and actual revenues in order to determine differences, generally called as variances either positive or negative.

Standard Rate: The standard rate is the rate which based on standard costing or on standard practices.

Standing Order: Standing order is an order by a customer, business or personal to their banker to pay a specified amount usually on or around a particular day of the month regularly to another account. This could be typically to a person's building society for regular payment of mortgage interest or for premiums for life in assurance.

Statement: A statement is a copy of a customer's personal account taken from the supplier's books to know the details of customers accounts.

Statement of Affairs: A statement from which the capital of the owner can be found by estimating assets and liabilities, i.e., Capital = Assets – Liabilities. It is the equivalent of the balance sheet.

Stock: The total goods or raw materials held by a business for the purpose of resale. Stock is valued in the balance sheet at the lower of cost and net realizable value. It is also known as inventory.

Stock Turnover: In simple, stock turnover means the number of times stock is sold in an accounting period. Also known as 'stock turn'.

Stock Taking: Stock taking is the process of physically verification or checking a business' stock for total quantities and value at a given point of time.

Subsidiary Undertaking: An undertaking which is controlled by another undertaking or where that other undertaking exercises a dominating influence over it.

Subsidiary Ledgers: These are ledgers where supporting or memorandum ledger accounts are kept, in addition to the main ledger. It generally consists of Purchase ledger, Sales ledger, Purchase return book, Sales return book, Bills receivable books, Bills payable books, Journal proper, etc.

Sunk Costs: Sunk sosts are retrospective (past) costs that have already been incurred and cannot be recovered. Sunk costs are sometimes contrasted with prospective costs, which are future costs that may be incurred or changed if an action is taken. In simple sunk cost a cost which has already occurred.

Super Profits: In simple super profit means, net profit less the opportunity costs of alternative earnings and alternative returns on capital invested that have been foregone.

Suspense Account: A suspense account is an account used temporarily to carry doubtful receipts and disbursements or discrepancies pending their analysis and permanent classification. It can be used as a holding account until it is decided what should be done with the value. The balance on the suspense account should ultimately be zero.

Scrip Dividend: Scrip dividend means distributes dividends in the form of shares by the company to the shareholders.

Scrip Issue: A free issue of extra shares to shareholders by a company. This arises when the share price has risen so high that they become too expensive to buy for the smaller investors and also known as a 'bonus' or 'capitalization' issue.

Secondary Market: The secondary market is a place where an investor can buy or sell existing securities. Shares will be traded in the secondary market once they have been issued in the primary market.

Securities: The term securities generally used to cover all stocks and shares.

Securities and Exchange Commission (SEC): The primary regulator for all the securities industry in the US. Its responsibility is to promote full disclosure and to protect investors against fraudulent and manipulative practices in the securities markets.

Securities and Futures Authority (SFA): The self-regulating organization (SRO) which has responsibility for regulating all firms engaged in the securities and futures sector of the financial services market. However, since December, 2001 all regulatory functions of the SFA has been absorbed into the Financial Services Authority.

Self-regulating Organization (SRO): Organizations that were set up under the Financial Services Act of 1986 to be directly responsible for policing investment businesses.

Selling Short: The practice of selling securities which are not at present owned, in the hope that they can be bought at a lower price, once the price has fallen to settle the contract.

Settlement: The payment for the securities and the delivery of the securities in return for the payment.

Shareholder: In simple the term shareholder means the owner of shares in a company. Shareholders supply what is known as the risk capital and share in the success of the company. If the company is a success and makes a profit, shareholders receive the rewards of increasing dividend income and capital gains on the price of their shares an in failure, shareholders stand to lose the whole of their investment.

Share Certificate: This is the legal proof of ownership of shares in a company. But due to increase of electronic trading and settlement systems such as crest, share certificates are gradually being phased out.

Stagging: The process of buying shares when they are initially offered to the general public and then selling them immediately to retail investors once trading has begun — with a view to making a quick profit.

Stamp Duty: Stamp duty is a tax levied on share dealings and house purchases.

Standard & Poor's Stock Index (S&P500): US performance index of a basket of 500 stocks that are considered to be widely held.

Stepped Preference Shares: Stepped preference shares are preference shares whose fixed percentage dividend will rise annually at a preset rate.

Stock Broker: A stock broker is a member of the stock exchange who buys and sells shares on your behalf for a brokerage fee.

Stock Exchange: Stock Exchange is a place where trading for stocks, shares and other securities are made.

Stock Exchange Automated Quotations (SEAQ): The SEAQ is a computerized price display and recording system for prices of gilts and of shares. SEAQ requires all competing market-makers to quote buying and selling prices along with the number of shares they are prepared to deal with at that price.

Stock Exchange Electronic Trading Service (SETS): An automated trading system that was introduced in 1997 in the London stock exchange. It matches the orders of buyers and sellers automatically, thus cutting out the need for a market-maker.

Subsidiary Company: Subsidiary company is a company that has the majority of its voting shares owned by a holding company.

Surrender Value: The cash amount received if an insurance policy is cancelled before its maturity date.

T

T-Account: It is the layout of accounts. T-ACCOUNT is the basis for journal entry in accounting and having certain elements. A title, a left side (debit side) and a right side (credit side).

Tangible Asset: Assets having a physical existence, such as cash, equipment, and real estate; accounts receivable are also usually considered tangible assets for accounting purposes.

Tax Code: The tax code is the number found by adding up an individual's personal allowances which is used to calculate that individual's tax liability.

Total Cost: The total cost is the cost which is incurred for the production of finished product. In general Prime Cost + Work Overheads + Administration Overheads + Selling and Distribution Overheads + Research and Development Overheads. In some case it also Fixed Cost + Variable Cost + Semi-variable Cost.

Trade Discount: A percentage reduction from the list price of goods that a business may offer to some customers at the time of huge purchase of goods.

Trading Account: Trading account is compares sales, stock used and direct expenses to find the gross profit or loss made by buying and selling.

Trading and Profit and Loss Account: Financial statements in which both gross profit or loss and net profit or loss are calculated.

Transposition Error: The transposition error is the error where the characters within a number are entered in the wrong sequence.

Trial Balance: It is a statement together with their net balances, shown as either a debit or a credit balance. It is prepare to check the arithmetically accuracy of the accounts.

True and Fair View: The expression that is used by auditors to indicate whether, in their opinion, the financial statements fairly represent the state of affairs and financial performance of a company.

Trustee: An individual or an organization which holds or manages and invests assets for the benefit of another. The trustee is legally obliged to make all trust-related decisions with the trustee's interests in mind, and may be liable for damages in the event of not doing so.

Tax Credit: Dividends payments are received in net because companies are required to deduct tax when paying out a dividend. If rate of tax is lower than the rate paid by the company, then allowed to receive the difference as tax credit.

Tax Avoidance: Tax avoidance an attempt to minimize the tax payable by legal means.

Tax Evasion: An attempt to minimize the tax payable by illegal means, e.g., by reporting inaccurately.

Tax Year: The tax year begins on April 6 and ends on April 5 the following year.

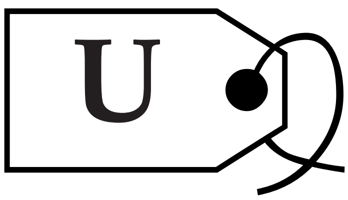
Tender Offer: Tender offer means it a way of raising capital by inviting investors to make bids for the price they are willing to pay for the shares.

Term Insurance: In life insurance, the insurance policy set up for a specified number of years. This specified number of year generally called as a term.

Tied Agent: A tied agent is a financial salesman who can only offer to sell the financial products of one company, rather than looking at the whole market for products that best suit you.

Total Return: The total return on an investment is the combination of both the income return and any capital gain or loss.

Tracker Fund: An index tracker fund is a collective investment vehicle that is designed to follow the performance of a particular index. The simplest way to track an index would be to buy every share in the index at exactly its weight in the index and rebalance as companies are deleted from or added to the index.



Undertrading: Undertrading is usually caused by management's poor use of investment money and their general lack of ingenuity, skill or aggressiveness.

Unpresented Cheques: Cheques paid out which are passing through the bank clearing system, but have not yet been presented to the bank where the account is maintained.

Unquoted Investments: Unquoted investment means an investment not dealt in on a recognized stock exchange. It also known as unlisted investments.

Underperformance: It generally called as poor performance. An investment that does not grow as fast as other similar investments.

Underwriter: An investor or institution who agrees to take up the unsubscribed shares should there prove to be little demand by investors, when a new issue of shares or securities takes place. Underwriters will receive a handsome fee for taking on this risk.

Unit Trust: A unit trust is a mutual fund or collective investment that pools investors' cash and invests it on their behalf. It is the role of the unit trust manager to make sure that the money is invested properly and delivers the best return for the investors.

V

Valuation: It is a formal assessment of the worth of property, goods, etc.

Value-added Tax (VAT): VAT is a tax imposed by the government on certain goods/ services supplied. It is applied to all VAT registered businesses for a net sale or purchase amount.

Variable Costs: Variable cost is the cost which is varies as per the change of output. It generally change in total but constant in per unit. In simple change of expenses as to changes in the level of activity.

Variance: In simple it is nothing, it is only the difference between budget or standard and actual. It also describes the difference between the opening and closing balance of an account.

Variance Analysis: A means of assessing the difference between a predetermined cost/ income and the actual cost/income.

VAT Cash Accounting: A special arrangement for accounting for VAT, that must be agreed with the Customs and Excise department, by which VAT is charged on amounts actually received net of amounts paid, rather than on the invoices for those amounts.

VAT Invoice: An invoice issued by a supplier registered for VAT showing the supplier's VAT registration number, the date of issue and the tax point.

Venture Capital (VC): Funds that are made available to small young companies who have high growth potential. Managerial and technical advisors may also provide their services in this type of investment.

Volatility: The relative rate at which the price of a security rises and falls over time. This is found by calculating the annualized standard deviation of daily changes in price.

Volume: The number of bonds, shares and securities that are traded on the stock exchange for a given period.

Voting Right: Ownership of shares usually gives the shareholder the right to vote in election for directors of the company and other corporate policy matters. One share means one vote.

W

Wall Street: The name of the famous street on which the New York stock exchange and other major financial institutions are located.

Warrants: Warrants are risky investments which give the holder the right to buy a given number of shares in a company at a fixed price at some future date usually several years ahead. A warrant is a right and not an obligation to buy.

Whole-of-life Insurance: An insurance policy that covers your entire life. It is not like term insurance, which only lasts for a set period.

'What If': Altering volumes and amounts so as to see what would be likely to happen if they were changed. For example, a company may wish to know the financial effects of cutting its selling price by £1 a unit. Also called sensitivity analysis.

Winding-up: It is also called as liquidation. The end of a company by selling off its assets to pay-off creditors and distributing the remaining funds to its shareholders.

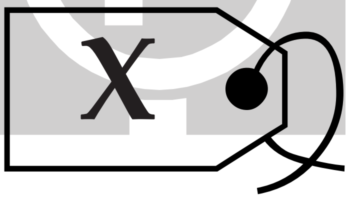
With-profits Policies: Investment-based insurance policies are investments whose returns are in the form of bonuses which depend on profits made by insurers. There are many factors which influence the level of bonuses, including the return the insurer gets on investing premiums, cost levels, claims experience, whether there are shareholders who receive part of the profits, and the extent to which the company tries to smooth bonus levels from one year to the next.

Work Certified: Work certified is one type of certified valuation by an architect or an engineer on a contract costing to evaluate the value of work-in-progress.

Work-in-progress (W.I.P): The value of partly finished of work at the end of an accounting period.

Working Capital: The working capital is the capital which is required to maintain the day-to-day operation of the business. In an accounting term it is the excess of current assets over the current liabilities. It also net current assets.

Write-off: It is a term which is generally used to cancel a bad debt or obsolete asset from the accounts or, to consider a transaction as a loss or set off a loss against revenues or, to charge a specified amount against gross profits as depreciation of an asset.



XD: It short for exdividend. It reflects a share price where the most recent dividend has been paid-out but anyone buying the share will not get this benefit.

Y

Yield: The term yield describes the amount in cash that returns to the owners of a security. In simply it is the return on an investment expressed as a percentage.

Yield Curve: The yield curve is the relation between the interest rate or cost of borrowing and the time to maturity of the debt for a given borrower in a given currency.

Yield to Maturity: The Yield to maturity (YTM) or redemption yield of a bond or other fixed-interest security, such as gilts, is the internal rate of return (IRR) earned by an investor who buys the bond today at the market price, assuming that the bond will be held until maturity. All coupon and principal payments will be made on schedule. It is actually an estimation of future return.

Z

Zero-rated: Zero-rated on which the buyer pays no VAT although the seller can claim back any tax he/she has paid. It include some food items, newspapers, magazines and books, medicine and children's clothing.

Zero-rated Business: A business that only supplies zero-rated goods and services. It does not charge VAT to its customers but it receives a refund of VAT on goods and services it purchases.

Zero Coupon Bonds: A zero-coupon bond also called a discount bond or deep discount **bond.** It is a bond bought at a price lower than its face value but at the time of maturity it repaid at face value. It does not make periodic interest payments and the investors earn return from the compounded interest all paid at maturity plus the difference between the discounted price of the bond and its par or redemption value.

Zero Dividend Preference Share ('zeros'): Zeros are capital shares in a split-capital investment trust. They do not receive any dividend income but get part of the capital growth of the assets held by the trust when the trust is wound up.

Zero-based Budgeting: Zero-based budgeting is a technique of planning and decision-making which reverses the working process of traditional budgeting. In traditional incremental budgeting, departmental managers justify only increases over the previous year budget and what has been already spent is automatically sanctioned. Zero-based budgeting requires the budget request be justified in complete detail by each division manager starting from the zero-base.

Zero Balance Account: A zero balance account in which a balance of zero is maintained by automatically transferring funds from a master account in an amount only large enough to cover checks presented.

End