Resource 2 Glossary

A Glossary of Financial Terms and Vocabulary

A

account payable: An amount due for payment to a supplier of goods or services, also described as a trade creditor.

account receivable: An amount due from a customer, also described as a trade debtor.

accountancy firm: **A** business partnership (or possibly a limited company) in which the partners are qualified accountants. The firm undertakes work for clients in respect of audit, accounts preparation, tax and similar activities.

accountancy profession: The collective body of persons qualified in accounting, and working in accounting-related areas. Usually they are members of a professional body, membership of which is attained by passing examinations.

accounting: The process of identifying, measuring and communicating financial information about an entity to permit informed judgments and decisions by users of the information.

accounting equation: The relationship between assets, liabilities and ownership interest.

accounting period: Time period for which financial statements are prepared (e.g. month, quarter, year).

accounting policies: Accounting methods which have been judged by business enterprises to be most appropriate to their circumstances and adopted by them for the purpose of preparing their financial statements.

accounting standards: Definitive statements of best practice issued by a body having suitable authority.

Accounting Standards Board: The authority in the UK which issues definitive statements of best accounting practice. Most nations or economic communities have an accounting standards board by some name.

accruals basis: The effects of transactions and other events are recognized when they occur (and not as cash or its equivalent is received or paid) and they are recorded in the accounting records and reported in the financial statements of the periods to which they relate (see also ***matching***).

accumulated depreciation: Total depreciation of a non-current (fixed) asset, deducted from original cost to give net book value.

acid test: The ratio of liquid assets to current liabilities.

acquire: Company that becomes controlled by another.

acquirer: Company that obtains control of another.

acquisition: An acquisition takes place where one company – the acquirer – acquires control of another – the acquiree – usually through purchase of shares.

acquisition method: Production of consolidated financial statements for an acquisition.

administrative expenses: Costs of managing and running a business.

agency: A relationship between a principal and an agent. In the case of a limited liability company, the shareholder is the principal and the director is the agent.

agency theory: A theoretical model, developed by academics, to explain how the relationship between a principal and an agent may have economic consequences.

aggregate depreciation: See ***accumulated depreciation***.

allocate: To assign a whole item of cost, or of revenue, to a simple cost centre, account or time period.

allocated, **allocation:** See ***allocate***.

amortization: Process similar to depreciation, usually applied to intangible fixed assets.

annual report: A document produced each year by limited liability companies containing the accounting information required by law. Larger companies also provide information and pictures of the activities of the company.

articles of association: Document setting out the relative rights of shareholders in a limited liability company.

articulation: The term 'articulation' is used to refer to the impact of transactions on the balance sheet and profit and loss account through application of the accounting equation.

assets: Rights or other access to future economic benefits controlled by an entity as a result of past transactions or events.

associated company: One company exercises significant influence over another, falling short of complete control.

audit: An audit is the independent examination of, and expression of opinion on, financial statements of an entity.

audit manager: An employee of an accountancy firm, usually holding an accountancy qualification, given a significant level of responsibility in carrying out an audit assignment and responsible to the partner in charge of the audit.

B

bad debt: It is known that a credit customer (debtor) is unable to pay the amount due.

balance sheet: A statement of the financial position of an entity showing assets, liabilities and ownership interest.

bankruptcy: A state of being declared by law as unable to pay one's debts

bank facility: An arrangement with a bank to borrow money as required up to an agreed limit.

bond: The name sometimes given to loan finance (more commonly in the USA).

bondholder: A person or company that holds a certificate or agreement to be repaid money loaned

broker (stockbroker): Member of a stock exchange who arranges purchase and sale of shares and may also provide an information service giving buy/sell/hold recommendations.

broker's report: Bulletin written by a stockbroking firm for circulation to its clients, providing analysis and guidance on companies as potential investments.

Business combination: A transaction in which one company acquires control of another.

business cycle: Period (usually 12 months) during which the peaks and troughs of activity of a business form a pattern which is repeated on a regular basis.

business entity: A business which exists independently of its owners.

called up (share capital): The company has called upon the shareholders who first bought the shares, to make their payment in full.

C

capital: An amount of finance provided to enable a business to acquire assets and sustain its operations.

capital expenditure: Spending on non-current (fixed) assets of a business.

capitalization issue: Issue of shares to existing shareholders in proportion to shares already held. Raises no new finance but changes the mix of share capital and reserves.

cash: Cash on hand (such as money held in a cash box or a safe) and deposits in a bank that may be withdrawn on demand.

cash equivalents: Short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

cash flow projections: Statements of cash expected to flow into the business and cash expected to flow out over a particular period.

cash flow statement: Provides information about changes in financial position.

Chairman: The person who chairs the meetings of the board of directors of a company (preferably not the chief executive).

charge: In relation to interest or taxes, describes the reduction in ownership interest reported in the income statement (profit and loss account) due to the cost of interest and tax payable.

chief executive: The director in charge of the day-to-day running of a company.

close season: Period during which those who are 'insiders' to a listed company should not buy or sell shares.

coffers: funds or financial reserves of an institution (from original meaning of a chest holding valuables)

commercial paper: A method of borrowing money from commercial institutions such as banks.

comparability: Qualitative characteristic expected in financial statements, comparable within company and between companies.

completeness: Qualitative characteristic expected in financial statements.

conceptual framework: A statement of principles providing generally accepted guidance for the development of new reporting practices and for challenging and evaluating the existing practices.

conservatism: See ***prudence***. Sometimes used with a stronger meaning of understating assets and overstating liabilities.

consistency: The measurement and display of similar transactions and other events is carried out in a consistent way throughout an entity within each accounting period and from one period to the next, and also in a consistent way by different entities.

consolidated financial statements: Present financial information about the group as a single reporting entity.

consolidation: Consolidation is a process that aggregates the total assets, liabilities and results of the parent and its subsidiaries (the group) in the consolidated financial statements.

contingent liabilities: Obligations that are not recognized in the balance sheet because they depend upon some future event happening.

control: The power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

convertible loan: Loan finance for a business that is later converted into share capital.

corporate governance: The system by which companies are directed and controlled. Boards of directors are responsible for the governance of their companies.

corporate recovery department: Part of an accountancy firm which specializes in assisting companies to recover from financial problems.

corporate social responsibility: Companies integrate social and environmental concerns in their business operations and in their interactions with stakeholders.

corporation tax: Tax payable by companies, based on the taxable profits of the period.

cost of a non-current asset: The cost of making it ready for use, cost of finished goods is cost of bringing them to the present condition and location.

cost of goods sold: Materials, labor and other costs directly related to the goods or services provided.

cost of sales: See ***cost of goods sold***.

coupon: Rate of interest payable on a loan.

credit (bookkeeping system): Entries in the credit column of a ledger account represent increases in liabilities, increases in ownership interest, revenue, or decreases in assets.

credit (terms of business): The supplier agrees to allow the customer to make payment some time after the delivery of the goods or services. Typical trade credit periods range from 30 to 60 days but each agreement is different.

credit note: A document sent to a customer of a business cancelling the customer's debt to the business, usually because the customer has returned defective goods or has received inadequate service.

credit purchase: A business entity takes delivery of goods or services and is allowed to make payment at a later date.

credit sale: A business entity sells goods or services and allows the customer to make payment at a later date.

creditor: A person or organization to whom money is owed by the entity.

critical event: The point in the business cycle at which revenue may be recognized.

current asset: An asset that is expected to be converted into cash within the trading cycle.

current liability: A liability which satisfies any of the following criteria: (a) it is expected to be settled in the entity's normal operating cycle; (b) it is held primarily for the purpose of being traded; (c) it is due to be settled within 12 months after the balance sheet date.

current value: A method of valuing assets and liabilities which takes account of changing prices, as an alternative to historical cost.

customers' collection period: Average number of days credit taken by customers.

cut-off procedures: Procedures applied to the accounting records at the end of an accounting period to ensure that all transactions for the period are recorded and any transactions not relevant to the period are excluded.

D

debenture: A written acknowledgement of a debt – a name used for loan financing taken up by a company.

debtor: A person or organization that owes money to the entity.

deep discount bond: A loan issued at a relatively low price compared to its nominal value.

default: Failure to meet obligations as they fall due for payment.

deferred asset: An asset whose benefit is delayed beyond the period expected for a current asset, but which does not meet the definition of a fixed asset.

deferred income: Revenue, such as a government grant, is received in advance of performing the related activity. The deferred income is held in the balance sheet as a type of liability until performance is achieved and is then released to the income statement.

deferred taxation: The obligation to pay tax is deferred (postponed) under tax law beyond the normal date of payment.

depreciable amount: Cost of a non-current (fixed) asset minus residual value.

depreciation: The systematic allocation of the depreciable amount of an asset over its useful life. The depreciable amount is cost less residual value.

derecognition: The act of removing an item from the financial statements because the item no longer satisfies the conditions for recognition.

difference on consolidation: Difference between fair value of the payment for a subsidiary and the fair value of net assets acquired, more commonly called ***goodwill***.

direct method (of operating cash flow): Presents cash inflows and cash outflows.

directive: An instruction or requirement, such as an Federal Reserve directive to member banks

director(s): Person(s) appointed by shareholders of a limited liability company to manage the affairs of the company.

disclosed, disclosure: An item which is reported in the notes to the accounts is said to be disclosed but not recognized.

discount received: A supplier of goods or services allows a business to deduct an amount called a discount, for prompt payment of an invoiced amount. The discount is often expressed a percentage of the invoiced amount.

dividend: Amount paid to a shareholder, usually in the form of cash, as a reward for investment in the company. The amount of dividend paid is proportionate to the number of shares held.

dividend cover: Earnings per share divided by dividend per share.

dividend yield: Dividend per share divided by current market price.

doubtful debts: Amounts due from credit customers where there is concern that the customer may be unable to pay.

drawings: Cash taken for personal use, in sole trader or partnership business, treated as a reduction of ownership interest.

E

earnings for ordinary shareholders: Profit after deducting interest charges and taxation and after deducting preference dividends (but before deducting extraordinary items).

earnings per share: Earnings for ordinary shareholders divided by the number of shares which have been issued by the company.

effective interest rate: The rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument.

efficient markets hypothesis: Share prices in a stock market react immediately to the announcement of new information.

endorsed: International financial reporting standards approved for use in: **endorsement:** See ***endorsed***.

enterprise: a business activity or a commercial project.

entity, entities: Something that exists independently, such as a business which exists independently of the owner.

entry price: The value of entering into acquisition of an asset or liability, usually replacement cost.

equities analyst: A person who investigates and writes reports on ordinary share investments in companies (usually for the benefit of investors in shares).

equity: A description applied to the ordinary share capital of an entity.

equity accounting: Reports in the balance sheet the parent or group's share of the investment in the share capital and reserves of an associated company.

equity interest: See ***ownership interest***.

equity portfolio: A collection of equity shares.

equity shares: Shares (a stake) in a company which participate in sharing dividends and in sharing any surplus on winding up, after all liabilities have been met.

Eurobond market: A market in which bonds are issued in the capital market of one country to a non-resident borrower from another country.

exit price: See ***exit value***.

exit value: A method of valuing assets and liabilities based on selling prices, as an alternative to historical cost.

expense: An expense is caused by a transaction or event arising during the ordinary activities of the business which causes a decrease in the ownership interest.

external reporting: Reporting financial information to those users with a valid claim to receive it, but who are not allowed access to the day-to-day records of the business.

external users (of financial statements): Users of financial statements who have a valid interest but are not permitted access to the day-to-day records of the company.

F

fair value: The amount at which an asset or liability could be exchanged in an arm's-length transaction between a willing buyer and a willing seller.

faithful presentation: Qualitative characteristic, information represents what it purports to represent.

financial accounting: A term usually applied to external reporting by a business where that reporting is presented in financial terms.

financial adaptability: The ability of the company to respond to unexpected needs or opportunities.

financial gearing: Ratio of loan finance to equity capital and reserves.

financial information: Information which may be reported in money terms.

financial risk: Exists where a company has loan finance, especially long-term loan finance where the company cannot relinquish its commitment. The risk relates to being unable to meet payments of interest or repayment of capital as they fall due.

financial statements: Documents presenting accounting information which is expected to have a useful purpose.

financial viability: The ability to survive on an ongoing basis.

financing activities: Activities that result in changes in the size and composition of the contributed equity and borrowings of the entity.

fixed asset: An asset that is held by an enterprise for use in the production or supply of goods or services, for rental to others, or for administrative purposes on a continuing basis in the reporting entity's activities.

fixed assets: See ***non-current assets***.

fixed assets usage: Revenue divided by net book value of fixed assets.

fixed capital: Finance provided to support the acquisition of fixed assets.

fixed cost: One which is not affected by changes in the level of output over a defined period of time.

floating charge: Security taken by lender which floats over all the assets and crystallizes over particular assets if the security is required.

format: A list of items which may appear in a financial statement, setting out the order in which they are to appear.

forward exchange contract: An agreement to buy foreign currency at a fixed future date and at an agreed price.

fully paid: Shares on which the amount of share capital has been paid in full to the company.

fund manager: A person who manages a collection (portfolio) of investments, usually for an insurance company, a pension fund business or a professional fund management business which invests money on behalf of clients.

G

gearing (financial): The ratio of debt capital to ownership claim.

general purpose financial statements: Documents containing accounting information which would be expected to be of interest to a wide range of user groups. For a limited liability company there would be: a balance sheet, a profit and loss account, a statement of recognized gains and losses and a cash flow statement.

going concern basis: The assumption that the business will continue operating into the foreseeable future.

goodwill: Goodwill on acquisition is the difference between the fair value of the amount paid for an investment in a subsidiary and the fair value of the net assets acquired.

gross: Before making deductions.

gross margin: Sales minus cost of sales before deducting administration and selling expenses (another name for gross profit). Usually applied when discussing a particular line of activity.

gross margin ratio: Gross profit as a percentage of sales.

gross profit: Sales minus cost of sales before deducting administration and selling expenses (see also ***gross margin***).

H

highlights statement: A page at the start of the annual report setting out key measures of performance during the reporting period.

historical cost: Method of valuing assets and liabilities based on their original cost without adjustment for changing prices.

I

IAS: International Accounting Standard, issued by the IASB's predecessor body.

IASB: International Accounting Standards Board, an independent body that sets accounting standards accepted as a basis for accounting in many countries, including all Member States of the European Union.

IASB system: The accounting standards and guidance issued by the ***IASB***.

IFRS: International Financial Reporting Standard, issued by the IASB.

impairment: A reduction in the carrying value of an asset, beyond the expected depreciation, which must be reflected by reducing the amount recorded in the balance sheet.

impairment review: Testing assets for evidence of any impairment.

impairment test: Test that the business can expect to recover the carrying value of the intangible asset, through either using it or selling.

improvement: A change in, or addition to, a non-current (fixed) asset that extends its useful life or increases the expected future benefit. Contrast with repair which restores the existing useful life or existing expected future benefit.

income statement: Financial statement presenting revenues, expenses, and profit. Also called ***profit and loss account***.

incorporation, date of. The date on which a company comes into existence.

indirect method (of operating cash flow): Calculates operating cash flow by adjusting operating profit for non-cash items and for changes in working capital.

insider information: Information gained by someone inside, or close to, a listed company which could confer a financial advantage if used to buy or sell shares. It is illegal for a person who is in possession of inside information to buy or sell shares on the basis of that information.

insolvency: State of being unable to pay debts owed

institutional investor: An organization whose business includes regular investment in shares of companies, examples being an insurance company, a pension fund, a charity, an investment trust, a unit trust, a merchant bank.

intangible: Without shape or form, cannot be touched.

interest (on loans): The percentage return on capital required by the lender (usually expressed as a percentage per annum).

interim reports: Financial statements issued in the period between annual reports, usually half-yearly or quarterly.

internal reporting: Reporting financial information to those users inside a business, at various levels of management, at a level of detail appropriate to the recipient.

inventory: Stocks of goods held for manufacture or for resale.

investing activities: The acquisition and disposal of long-term assets and other investments not included in cash equivalents.

investment capital: Monies or funds made available at the start of an enterprise

investors: Persons or organizations which have provided money to a business in exchange for a share of ownership.

J

joint and several liability (in a partnership): The partnership liabilities are shared jointly but each person is responsible for the whole of the partnership.

K

key performance indicators: Quantified measures of factors that help to measure the performance of the business effectively.

L

lawsuit award: Compensation made to a party that has won a court action

leasing: Acquiring the use of an asset through a rental agreement.

legal form: Representing a transaction to reflect its legal status, which might not be the same as its economic form.

legal settlement: An agreement that has been reached through a court action

leverage: Alternative term for gearing, commonly used in the USA.

liabilities: Obligations of an entity to transfer economic benefits as a result of past transactions or events.

limited liability: A phrase used to indicate that those having liability in respect of some amount due may be able to invoke some agreed limit on that liability.

limited liability company: Company where the liability of the owners is limited to the amount of capital they have agreed to contribute, i.e., a ***corporation***.

liquidation: winding up of the affairs of a company or business by ascertaining liabilities and apportioning assets

liquidity: The extent to which a business has access to cash or items which can readily be exchanged for cash.

listed company: A company whose shares are listed by the Stock Exchange as being available for buying and selling under the rules and safeguards of the Exchange.

listing requirements: Rules imposed by the Stock Exchange on companies whose shares are listed for buying and selling.

Listing Rules: Issued by the UK Listing Authority of the Financial Services Authority to regulate companies listed on the UK: Stock Exchange. Includes rules on accounting information in annual reports.

loan covenants: Agreement made by the company with a lender of long-term finance, protecting the loan by imposing conditions on the company, usually to restrict further borrowing.

loan notes: A method of borrowing from commercial institutions such as banks.

loan stock: Loan finance traded on a stock exchange.

long-term finance, long-term liabilities: Money lent to a business for a fixed period, giving that business a commitment to pay interest for the period specified and to repay the loan at the end of the period. Also called ***non-current liabilities. I***nformation in the financial statements should show the commercial substance of the situation.

M

management: Collective term for those persons responsible for the day-to-day running of a business.

management accounting: Reporting accounting information within a business, for management use only.

market value (of a share): The price for which a share could be transferred between a willing buyer and a willing seller.

marking to market: Valuing a marketable asset at its current market price.

margin: Profit, seen as the 'margin' between revenue and expense.

matching: Expenses are matched against revenues in the period they are incurred (see also ***accruals basis***).

material: See ***materiality***.

materiality: Information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements.

maturity: The date on which a liability is due for repayment.

maturity profile of debt: The timing of loan repayments by a company in the future.

memorandum (for a company): Document setting out main objects of the company and its powers to act.

merger: Two organizations agree to work together in a situation where neither can be regarded as having acquired the other.

minority interest: The ownership interest in a company held by persons other than the parent company and its subsidiary undertakings. Also called ***a non-controlling interest***.

N

net: After making deductions.

net assets: Assets minus liabilities (equals ownership interest).

net book value: Cost of non-current (fixed) asset minus accumulated depreciation.

net profit: Sales minus cost of sales minus all administrative and selling costs.

net realizable value: The proceeds of selling an item, less the costs of selling.

neutral: Qualitative characteristic of freedom from bias.

nominal value (of a share): The amount stated on the face of a share certificate as the named value of the share when issued.

non-controlling interest: See ***minority interest***.

non-current assets: Any asset that does not meet the definition of a current asset. Also described as fixed assets.

non-current liabilities: Any liability that does not meet the definition of a current liability. Also described as long-term liabilities.

notes to the accounts: Information in financial statements that gives more detail about items in the financial statements.

O

off-balance-sheet finance: An arrangement to keep matching assets and liabilities away from the entity's balance sheet.

offer for sale: A company makes a general offer of its shares to the public.

operating activities: The principal revenue-producing activities of the entity and other activities that are not investing or financing activities.

operating and financial review: Section of the annual report of many companies which explains the main features of the financial statements.

operating gearing: The ratio of fixed operating costs to variable operating costs.

operating margin: Operating profit as a percentage of sales.

operating risk: Exists where there are factors, such as a high level of fixed operating costs, which would cause profits to fluctuate through changes in operating conditions.

ordinary shares: Shares in a company which entitle the holder to a share of the dividend declared and a share in net assets on closing down the business.

ownership interest: The residual amount found by deducting all of the entity's liabilities from all of the entity's assets. (Also called ***equity interest***.)

P

par value: See ***nominal value***.

parent company: Company which controls one or more subsidiaries in a group.

partnership: Two or more persons in business together with the aim of making a profit.

partnership deed: A document setting out the agreement of the partners on how the partnership is to be conducted (including the arrangements for sharing profits and losses).

partnership law: Legislation which governs the conduct of a partnership and which should be used where no partnership deed has been written.

portfolio (of investment): A collection of investments.

portfolio of shares: A collection of shares held by an investor.

preference shares: Shares in a company which give the holder a preference (although not an automatic right) to receive a dividend before any ordinary share dividend is declared.

preliminary announcement: The first announcement by a listed company of its profit for the most recent accounting period. Precedes the publication of the full annual report. The announcement is made to the entire stock market so that all investors receive information at the same time.

premium: An amount paid in addition, or extra.

prepayment: An amount paid for in advance for an benefit to the business, such as insurance premiums or rent in advance. Initially recognized as an asset, then transferred to expense in the period when the benefit is enjoyed. (Also called ***a prepaid expense***.)

present fairly: A condition of the IASB system, equivalent to true and fair view in the UK ASB system.

price–earnings ratio: Market price of a share divided by earnings per share.

price-sensitive information: Information which, if known to the market, would affect the price of a share.

primary financial statements: The balance sheet, profit and loss account, statement of total recognized gains and losses and cash flow statement.

principal (sum): The agreed amount of a loan, on which interest will be charged during the period of the loan.

private limited company (Ltd): A company which has limited liability but is not permitted to offer its shares to the public. Also called a ***privately held corporation***.

production overhead costs: Costs of production that are spread across all output, rather than being identified with specific goods or services.

profit: Calculated as revenue minus expenses.

profit and loss account: Financial statement presenting revenues, expenses, and profit. Also called ***income statement***.

prospective investor: An investor who is considering whether to invest in a company.

prospectus: Financial statements and supporting detailed descriptions published when a company is offering shares for sale to the public.

provision: A liability of uncertain timing or amount.

provision for doubtful debts: An estimate of the risk of not collecting full payment from credit customers, reported as a deduction from trade receivables (debtors) in the balance sheet.

prudence: A degree of caution in the exercise of the judgments needed in making the estimates required under conditions of uncertainty, such that gains and assets are not overstated and losses and liabilities are not understated.

public limited company (plc): A company which has limited liability and offers its shares to the public.

purchase method: Method of producing consolidated financial statements (see ***acquisition method***).

purchases: Total of goods and services bought in a period.

Q

qualified audit opinion: An audit opinion to the effect that the accounts do not show a true and fair view; or the accounts show a true and fair view except for particular matters.

quality of earnings: Opinion of investors on reliability of earnings (profit) as a basis for their forecasts.

quoted company: Defined in section 262 of the Companies Act 1985 as a company that has been included in the official list in accordance with the provisions of Part VI of the Financial Services and Markets Act 2000, or is officially listed in an EEA state, or is admitted to dealing on either the New York Stock Exchange or the exchange known as NASDAQ.

R

realized profit, realization: A profit arising from revenue which has been earned by the entity and for which there is a reasonable prospect of cash being collected in the near future.

receivership: A state of being managed by an official receiver

recognized: An item is recognized when it is included by means of words and amount within the main financial statements of an entity.

recognition: See ***recognized***.

Registrar of Companies: An official authorized by the government to maintain a record of all annual reports and other documents issued by a company.

relevance: Qualitative characteristic of influencing the economic decisions of users.

reliability: Qualitative characteristic of being free from material error and bias, representing faithfully.

replacement cost: A measure of current value which estimates the cost of replacing an asset or liability at the date of the balance sheet. Justified by reference to value to the business.

reserves: The claim which owners have on the assets of a company because the company has created new wealth for them over the period since it began.

residual value: The estimated amount that an entity would currently obtain from disposal of the asset, after deducting the estimated cost of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.

retained earnings: Accumulated past profits, not distributed in dividends, available to finance investment in assets.

retained profit: Profit of the period remaining after dividend has been deducted.

return: The yield or reward from an investment.

return on capital employed: Operating profit before deducting interest and taxation, divided by share capital plus reserves plus long-term loans.

return on total assets: Operating profit before deducting interest and taxation, divided by total assets.

return on shareholders' equity: Profit for shareholders divided by share capital plus reserves.

return (in relation to investment): The reward earned for investing money in a business. Return may appear in the form of regular cash payments (dividends) to the investor, or in a growth in the value of the amount invested.

revaluation reserve: The claim which owners have on the assets of the business because the balance sheet records a market value for an asset that is greater than its historical cost.

revenue: Created by a transaction or event arising during the ordinary activities of the business which causes an increase in the ownership interest.

rights issue: A company gives its existing shareholders the right to buy more shares in proportion to those already held.

risk (in relation to investment): Factors that may cause the profit or cash flows of the business to fluctuate.

S

sales: See ***revenue, turnover***.

sales invoice: Document sent to customers recording a sale on credit and requesting payment.

securities: Certificates or guarantees attesting credit: ownership of stocks or bonds or the right to ownership connected with tradable derivatives

secured loan: Loan where the lender has taken a special claim on particular assets or revenues of the company.

segmental reporting: Reporting revenue, profit, cash flow assets , liabilities for each geographical and business segment within a business, identifying segments by the way the organization is managed.

share capital: Name given to the total amount of cash which the shareholders have contributed to the company.

share certificate: A document providing evidence of share ownership.

share premium: The claim which owners have on the assets of a company because shares have been purchased from the company at a price greater than the nominal value.

shareholders: Owners of a limited liability company.

shareholders' funds: Name given to total of share capital and reserves in a company balance sheet.

shares: The amount of share capital held by any shareholder is measured in terms of a number of shares in the total capital of the company.

short-term finance: Money lent to a business for a short period of time, usually repayable on demand and also repayable at the choice of the business if surplus to requirements.

sole trader: An individual owning and operating a business alone.

specific purpose financial statements: Documents containing accounting information which is prepared for a particular purpose and is not normally available to a wider audience.

stakeholders: A general term devised to indicate all those who might have a legitimate interest in receiving financial information about a business because they have a 'stake' in it.

statement of changes in equity: A financial statement reporting all items causing changes to the ownership interest during the financial period.

statement of recognized income and expense: A financial statement reporting realized and unrealized income and expense as part of a statement of changes in equity.

stepped bond: Loan finance that starts with a relatively low rate of interest which then increases in steps.

stewardship: Taking care of resources owned by another person and using those resources to the benefit of that person.

stock: A word with two different meanings. It may be used to describe an inventory of goods held for resale or for use in business. It may also be used to describe shares in the ownership of a company. The meaning will usually be obvious from the way in which the word is used.

stock exchange (Also called **stock market):** An organization which has the authority to set rules for persons buying and selling shares. The term 'stock' is used loosely with a meaning similar to that of 'shares'.

stock holding period: Average number of days for which inventory (stock) is held before use or sale.

stock market: See ***stock exchange***.

subsidiary company: Company in a group which is controlled by another (the ***parent company***).

substance (economic): Information in the financial statements should show the economic or commercial substance of the situation.

subtotal: Totals of similar items grouped together within a financial statement.

suppliers' payment period: Average number of days credit taken from suppliers.

T

tangible fixed assets: A fixed asset (also called a ***non-current asset***) which has a physical existence.

timeliness: Qualitative characteristic that potentially conflicts with relevance.

total assets usage: Sales divided by total assets.

trade creditors: Persons who supply goods or services to a business in the normal course of trade and allow a period of credit before payment must be made.

trade debtors: Persons who buy goods or services from a business in the normal course of trade and are allowed a period of credit before payment is due.

trade payables: Amounts due to suppliers (trade creditors), also called ***accounts payable***.

trade receivables: Amounts due from customers (trade debtors), also called ***accounts receivable***.

turnover: (1) The sales of a business or other form of revenue from operations of the business. (2) The number of employees who quit in a year, often expressed a percentage of the total number of employees.

U

UK ASB system: The accounting standards and company law applicable to corporate reporting by UK companies that do not report under the IASB system.

unlisted (company): Limited liability company whose shares are not listed on any stock exchange.

unrealized: Gains and losses representing changes in values of assets and liabilities that are not realized through sale or use.

unsecured creditors: Those who have no claim against particular assets when a company is wound up, but must take their turn for any share of what remains.

unsecured loan: Loan in respect of which the lender has taken no special claim against any assets.

V

value to the business: An idea used in deciding on a measure of current value.

variance: The difference between a planned, budgeted or standard cost and the actual cost incurred. An adverse variance arises when the actual cost is greater than the standard cost. A favorable variance arises when the actual cost is less than the standard cost.

W

working capital: Finance provided to support the short-term assets of the business (stocks and debtors) to the extent that these are not financed by short-term creditors. It is calculated as current assets minus current liabilities.

working capital cycle: Total of stock holding period plus customers collection period minus suppliers payment period.

work-in-progress: Cost of partly completed goods or services, intended for completion and recorded as an asset.

written down value: See ***net book value***.

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