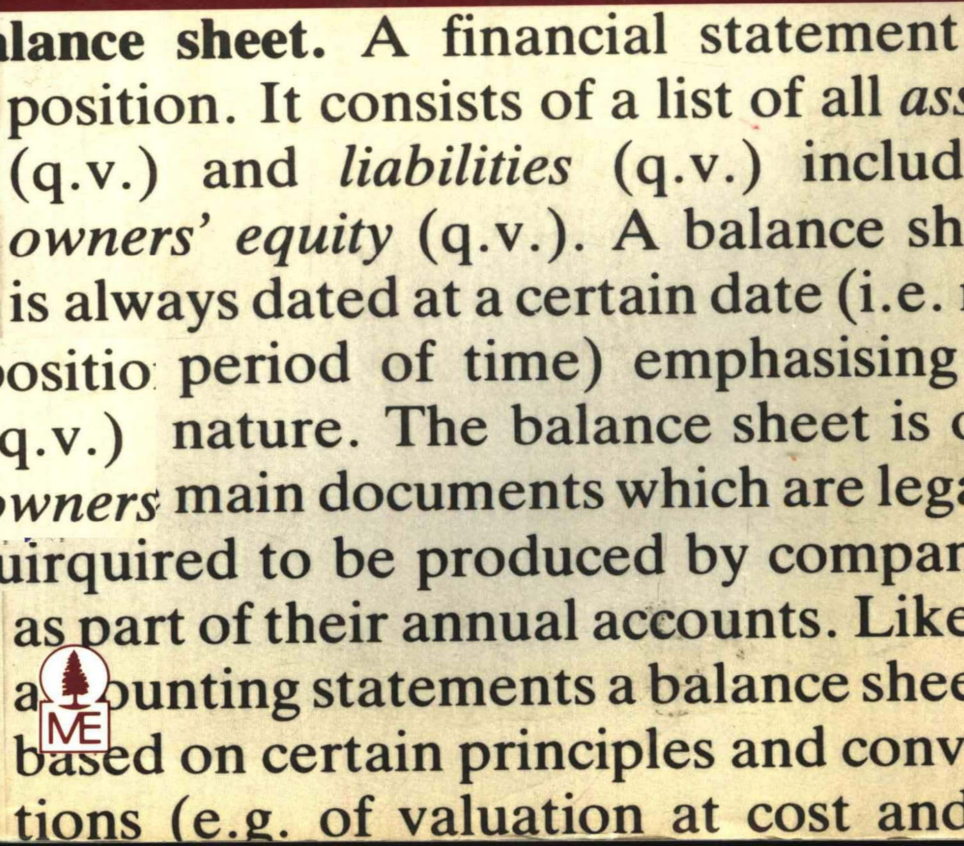
M & E PROFESSIONAL DICTIONARIES

A CONCISE DICTIONARY OF ACCOUNTING AND FINANCE

R Brockington



lance sheet. A financial statement
position. It consists of a list of all ass
(q.v.) and *liabilities* (q.v.) includ
owners' equity (q.v.). A balance sh
is always dated at a certain date (i.e.
ositio period of time) emphasising
q.v.) nature. The balance sheet is
wners main documents which are lega
uirquired to be produced by compar
as part of their annual accounts. Like
a ounting statements a balance shee
based on certain principles and conv
tions (e.g. of valuation at cost and

M & E PROFESSIONAL DICTIONARIES

A Concise Dictionary of Accounting and Finance

Raymond Brockington
BCom MSc(Econ) FCA
Lecturer in Finance and Accounting
University of Bath

Pitman Publishing Limited
128 Long Acre, London WC2E 9AN

A Longman Group Company

© Pitman Publishing Ltd 1986

First published 1986

British Library Cataloguing in Publication Data
Brockington, Raymond
A concise dictionary of accounting and finance.—(M&E professional dictionaries, ISSN 0265-8836)
1. Accounting—Dictionaries
I. Title
657'.03'21 HF5621

ISBN 0–7121–0684–7

All rights reserved. No part of this publication may be reproduced, stored in a retrieval system, or transmitted, in any form or by any means, electronic, mechanical, photocopying, recording and/or otherwise, without the prior written permission of the publishers. This book may not be lent, resold, hired out or otherwise disposed of by way of trade in any form of binding or cover other than that in which it is published, without the prior consent of the publishers.

Typeset, printed and bound in Great Britain

PREFACE

This dictionary is intended as a work of reference for those studying the literature of Accounting and Finance and for the reader of the financial press. It seeks to define as many as possible of the terms which will be encountered without including a large number of terms not likely to be met or appearing only idiosyncratically.

A particular difficulty in this subject area is that many of the terms use words regularly occurring in everyday speech but with such specialist meanings in this context that the reader is unlikely to guess at their correct interpretation from general knowledge. Thus, for example, "cost control" means something quite different from "cost of control" and "stock" will have one meaning if encountered in UK literature and another one if met in writing from the USA.

In the dictionary there are around 1,200 entries covering all the main aspects of Accounting and Finance. Legal, insurance and taxation terms with a financial relevance or an accounting significance are also included. Where American terminology differs from that used in the UK this is separately included and its origin is noted. Where a term or word has more than one meaning, according to context, all possibilities are given. In defining one technical term it frequently becomes necessary to use another. Where this occurs careful cross-referencing leads the reader to full definitions of these others.

In the intensely commercial world in which we live many people find a need for a good understanding of the language of Accounting and Finance. These range from those studying for specialist qualifications in the area, through those to whom the subject is an important, if not central, part of their job, to those who wish, as citizens, to be fully informed of the events around them. It is hoped that this dictionary will be of value to them all.

1986 RB

CONTENTS

PREFACE v

DICTIONARY 1

APPENDICES

I Statements of Standard Accounting Practice issued up to 30 September 1985 129
II International Accounting Standards issued up to 30 September 1985 130
III Highlights in the development of company law relating to accounting and finance 131
IV Chronology of developments in inflation accounting in UK 132
V The contents of a company's annual report and accounts 133
VI Currency units of European countries 134
VII Discounted cash flow tables 135

试读结束，需要全本PDF请购买 www.ertongbook.com

A

abacus. A bead frame used for counting and other calculations. At one time widely used in Eastern countries, it has been rendered obsolete by the computer and electronic calculator.

Abacus. An academic journal on accounting and business studies produced in Australia. It is published by Sydney University Press.

abandonment value. The amount which could be recovered from an investment project if it were immediately to be abandoned. It is of importance in the field of *capital budgeting* (q.v.) as a concept relevant to the monitoring and review of ongoing capital projects. No decision to invest should be regarded as irrevocable, and if at any time the abandonment of a project is of greater value than its continuance then abandonment is indicated. The simple decision rule is that a project should be abandoned if its abandonment value exceeds the *net present value* (q.v.) of its projected cash flows.

EXAMPLE. A certain project, nearing the end of its useful life, is expected to last for two further years and to yield at the end of these years positive cash flows of £8,000 and £6,000 respectively. If abandoned now, the plant and equipment used in the project could be sold for £12,500. After two further years of use it will have no value. The *cost of capital* (q.v.) is 10 per cent per annum.

Present value of future returns:

Year	*Returns*	*Discount factor*	*Present value*
	£		£
1	8,000	0.909	7,272
2	6,000	0.826	4,956
			12,228

Since it is worth only £12,228 to continue the project but £12,500 can be obtained by abandoning it, it should be abandoned. Failure to abandon is the equivalent of investing the £12,500 forgone into a project with a negative net present value.

abatement. A deduction which reduces the effect which some charge would otherwise have. The term is usually applied to an abatement of taxation which is given in special cases. Small companies, for example, receive an abatement of corporation tax by being charged an especially low rate.

abnormal wastage. Wastage leading to an unanticipated additional cost. Many industrial processes create a certain amount of waste material. When garments are cut out of cloth, for example, there will be pieces of material which cannot be used. The actual amount of waste depends partly upon the care with which the process is undertaken but there will be an irreducible minimum which depends upon the technicalities of the process. Abnormal wastage is that amount by which actual wastage exceeds the irreducible minimum, known as *normal wastage* (q.v.). Its significance is that it represents a loss due to avoidable causes as opposed to a necessary part of the cost of production. For costing purposes it should be shown separately in the costing profit and loss account.

above the line. Included in the profit and loss account of the business. The "line" is that dividing the *profit and loss account* (q.v.) from the *appropriation account* (q.v.); hence above the line items are those which are *revenue* (q.v.) items. *See also* BELOW THE LINE.

absorb. To allocate or apportion an item of *overhead* (q.v.) to some unit of production or *cost centre* (q.v.). Thus if fixed overhead is charged to production on, say, a *machine hour rate* (q.v.) it is said to have been absorbed on that basis.

absorption costing. That method of *costing* (q.v.) whereby all costs of production are attributed to identified units of production. The name is derived from the fact that the method requires some technique whereby *overhead* (q.v.) which is not directly attributable to these units is nevertheless absorbed by them, or added to directly attributable cost, after some process of *apportionment* (q.v.). Absorption costing should be contrasted with direct or *marginal costing* (q.v.) where only the fully attributable costs are taken into account.

ACA. The designatory letters of an associate member of the *Institute of Chartered Accountants in England and Wales* (q.v.).

ACCA. The designatory letters of an associate member of the *Chartered Association of Certified Accountants* (q.v.).

accelerated depreciation. A method of calculating *depreciation* (q.v.) in such a manner that a larger proportion of an asset's value is written off in the early part of its life than in later parts. Examples of methods of applying accelerated depreciation are the *reducing balance method* (q.v.) and the *sum of the year's digits method* (q.v.). The *straight line method* (q.v.) is, by contrast, not a method of accelerated depreciation. A method of accelerated depreciation may be used either because it is believed that this reflects the actual pattern of decline in the value of the asset or because, as a general principle, it is regarded as more prudent to write off assets as quickly as possible.

acceptance. The action of signifying on the face of a *bill of exchange* (q.v.) that liability is accepted under it. An accepted bill of exchange is likely to be easier to negotiate than one which has not been accepted.

account. 1. Any document or device whereby a record is kept of flows of value measured in money terms. A business will record all of its transactions in a set of accounts making up its *ledger* (q.v.). A cash account, for example, will show all cash received and paid. A fixed asset account will show purchases, sales and depreciation of fixed assets. The term account may also apply to a record of dealings between contracting parties. Thus one may have an account with a shop from which one makes regular purchases or an account with a *bank* (q.v.).

2. A period of time designated by the *Stock Exchange* (q.v.) during which all transactions fall to be settled at the same time. An account is usually of two weeks' duration, from a Monday until the Friday next but one, except where it embraces a public holiday, when it will last for three weeks. All the transactions within an account are due for settlement on *settlement day* (q.v.) which is the Tuesday next but one after the end of an account.

accountability. The responsibility to explain actions involving financial matters to others. The directors of a company have accountability to their shareholders. This is discharged by the publication of annual accounts and by answering questions put at meetings of shareholders.

Accountancy. The official journal of the *Institute of Chartered Accountants in England and Wales* (q.v.). It is published monthly and contains articles on accounting, auditing, taxation and other matters of professional interest. It also publishes the text of important statements such as *Statements of Standard Accounting Practice* (q.v.) and professional announcements. Members of the institute are expected to make themselves aware of "essential reading" contained in *Accountancy* and this is indicated by a red border to the pages containing this material. Less important "official material" is printed on pages having a blue border.

Accountant. The oldest independent journal published in the UK for the accountancy profession. It appears weekly and contains articles and other material of interest to accountants. It also contains classified advertising of a professional nature, e.g. of staff vacancies. It began publication in 1874.

accounting bases. The various methods of constructing accounting figures which are available. There are, for example, several bases on which *depreciation* (q.v.) might be determined. From the available accounting bases any business has to make an appropriate selection which become its *accounting policies* (q.v.).

accounting concepts. *See* CONCEPT.

accounting date. A date marking the end of a period for which accounts are prepared. Thus if a business prepares accounts for periods which coincide with the calendar year its accounting date will be 31 December in each year.

accounting policies. The particular accounting bases judged by a business to be the most appropriate to its own circumstances and therefore the ones which it adopts. Accounting policies were required to be disclosed by SSAP 2 and this disclosure is now required by the Companies Act 1981. Accounting policies concern such matters as *depreciation* (q.v.), translation of foreign currency, and stock valuation.

accounting principles. *See* GENERALLY ACCEPTED ACCOUNTING PRINCIPLES.

Accounting Principles Board. A standard-setting body in USA which operated from 1959 to 1973. The board was set up by the *American Institute of Certified Public Accountants* (q.v.) to undertake a programme of research into the problems of financial reporting. It produced two series of publications. One series was called "Opinions of the Accounting Principles Board" and the other was "Statements of the Accounting Principles Board". Thirty-one opinions were published and they became the ultimate source of authority for *generally accepted accounting principles* (q.v.). The statements were less authoritative but were intended to provide helpful guidance in difficult areas. The APB, which was served by volunteer members, was superseded by the *Financial Accounting Standards Board* (q.v.) from 1972.

accounting rate of return. A crude arithmetical determination of the rate of return offered by an investment project. It should be contrasted with the theoretically more acceptable *internal rate of return* (q.v.). Although an accounting rate of return may be calculated from information concerning a project which is completed, it is usually calculated on the basis of the estimated returns from a future project and is thus a method used for *investment appraisal* (q.v.).

EXAMPLE. Project X requires the immediate investment of £20,000 and promises to produce the following positive cash flows over the next 4 years:

Year	*Cash flow* *£*
1	8,000
2	7,000
3	6,000
4	5,000
Total	26,000

Calculation of accounting rate of return:

Total cash flow	£26,000
Less Initial investment	20,000
Total profit	£ 6,000
Average profit	£ 1,500 per annum
Average investment	£10,000 (50% initial sum)

$$\text{Accounting rate of return} = \frac{£1,500}{£10,000} \times 100 = \underline{15\% \text{ per annum}}$$

Accounting Review. The journal of the *American Accounting Association* (q.v.). It is published quarterly and contains learned articles on accounting and on accountancy education. Articles are accepted only after independent reviewers have given a favourable opinion on their academic merit.

Accounting Standards. Short term applying to *Statements of Standard Accounting Practice* (q.v.).

Accounting Standards Committee. The standard-setting body in the UK. It was constituted in its present form in 1976 but had existed (as the Accounting Standards Steering Committee) since 1970. The committee is made up of representatives of the main UK professional accountancy bodies. Its 23 members are drawn as follows:

Institute of Chartered Accountants in England and Wales	12
Institute of Chartered Accountants of Scotland	3
Institute of Chartered Accountants in Ireland	2
Chartered Association of Certified Accountants	2
Institute of Cost and Management Accountants	2
Chartered Institute of Public Finance and Accountancy	2

The terms of reference of the committee require it to propose definitive standards for financial accounting to the councils of its constituent bodies. These standards, known as *Statements of Standard Accounting Practice* (q.v.), are then promulgated simultaneously to the membership of the bodies concerned.

Accounting Standards Steering Committee. The standard-setting body in the UK from 1970 to 1976, when it was reconstituted as the *Accounting Standards Committee* (q.v.).

account payable. Synonym, commonly used in the USA, for *creditor* (q.v.)

account payee only. Words used in conjunction with the *crossing* (q.v.) on a cheque. The effect of their use is that the bank will pay the money only to the person named as payee. The cheque, so crossed, cannot be negotiated to a third party. It is a useful safeguard against a cheque's being misappropriated.

account receivable. Synonym, commonly used in the USA, for *debtor* (q.v.)

account rendered. A term appearing against the opening item on a statement sent by a supplier to a customer. It signifies that this amount is brought forward from a previous statement from which full details of it may be obtained if required.

account sales. A detailed statement sent by an *agent* (q.v.) with responsibility for making sales to his *principal* (q.v.). The agent is not selling on his own behalf and does not therefore own the goods which he is selling nor become entitled to the profits arising from their sale. He will, however, be entitled to receive a *commission* (q.v.) and to be reimbursed for his expenses whilst engaged on the principal's business. The account sales will show the total amount received from the sales of goods and the deductions from this to be made for the agent's commission and expenses. Hence it will show the net amount due from the agent to the principal.

accrual. A liability in respect of goods or services, provided for a business in the form of a continuous supply, consumed up to an accounting date but not billed by that date. Common subjects for accruals are electricity, gas and telephone services. Accruals are required in order that *matching* (q.v.) in the calculation of profit can be achieved. As well as being adjusted on the profit and loss account expenses accruals appear on the balance sheet as a *current liability* (q.v.). The accruals concept is one of the four fundamental principles embodied in the Companies Act 1985.

accumulated depreciation. The total amount of *depreciation* (q.v.) provided on a *fixed asset* (q.v.) from its date of purchase to date. The figure will thus normally include several years' depreciation. Company law requires that a company's fixed assets are shown at cost, or valuation, less accumulated depreciation. Because both figures must be stated, a separate account for accumulated depreciation is required. When an asset is sold or otherwise disposed of it must be eliminated from both the account containing its original cost and from that containing its accumulated depreciation. The difference between the two figures is the net *book value* (q.v.).

accumulated fund. An item on the balance sheet of a non-profit-making organisation representing the net investment in the organisation of its contributing members. Such an organisation does not normally employ the concept of *capital* (q.v.) which is associated with proprietorial rights and with the earning of profit. The accumulated fund is, however, similar in function to a capital account as it represents members' equity in the organisation and provides risk finance for the assets which are held and the operations which are undertaken. Very often an accumulated fund represents the cumulative surplus of subscriptions over expenditure and contains no element of long-term funding provided explicitly at the organisation's inception or subsequently. It is often quite small and represents merely the impossibility of matching revenues and expenditures exactly and the necessity to keep a small working balance of funds in hand.

accumulation units. Units in a *unit trust* (q.v.) where the income is reinvested in further units rather than being distributed in cash. Many unit trust managers offer their units on an accumulation basis at the option of the holder. It is a useful facility where the prime intention of the investment is savings rather than to produce an immediate income. Even though reinvested, the income on accumulation units is regarded as part of total income for the purpose of determining liability to income tax.

acid test ratio. The ratio which total liquid assets bear to current liabilities. It is so called because it is regarded as the ultimate test of a business's short-run ability to pay its debts. A synonym for the acid test ratio is the liquidity ratio.

For the purpose of determining the acid test ratio the liquid assets to be taken into account include *cash* (q.v.), favourable bank balances, *debtors* (q.v.), and readily realisable investments held as *current assets* (q.v.). The calculation of the acid test ratio is:

$$\text{Acid test ratio} = \frac{\text{Liquid assets}}{\text{Current liabilities}}$$

An acid test ratio of approximately 1 (i.e. equality between liquid assets and current liabilities) is normally considered healthy. It implies that there are sufficient readily available funds from which all short-term commitments can be met. The business is not, therefore, in immediate danger of a shortage of liquid funds.

ACMA. The designatory letters of an associate member of the *Institute of Cost and Management Accountants* (q.v.).

acquisition method. A method of preparing *consolidated accounts* (q.v.). The essential feature of the acquisition method of consolidation is that the *preacquisition profit* (q.v.) of the *subsidiary company* (q.v.) is unavailable for distribution to the members of the *holding company* (q.v.), for whom it has the status of capital funds. This is because the underlying assumption is that the holding company has purchased its controlling interest from those who previously owned it.

Until the Companies Act 1981, many authorities regarded the acquisition method as the only legal method of consolidation. Today it remains the method generally in use. The alternative *merger method* (q.v.) may be used only in precisely defined circumstances.

EXAMPLE. Summarised balance sheets at 31 December 19—

	Holding	*Subsidiary*
	£000s	*£000s*
Fixed assets	520	320
Net current assets	260	280
Investment in subsidiary (80% of issued share capital) at cost	470	–
	1,250	600
Represented by:		
Ordinary shares of £1 each	1,000	500
Profit and loss account	250	100*
	1,250	600

*At the date when Holding acquired its shares in Subsidiary, this balance stood at £60,000.

The acquisition method requires the following calculation of *goodwill* (q.v.), if a positive quantity, or *capital reserve* (q.v.), if a negative quantity.

Purchase price of shares in Subsidiary		£470,000
Net assets acquired:		
80% share capital	£400,000	
80% of profit and loss account at date of purchase	48,000	448,000
Goodwill		£ 22,000

The consolidated balance sheet of Holding and its subsidiary is then:

		£000s
Fixed assets		840
Net current assets		540
Goodwill†		22
		1,402
Represented by:		
Ordinary shares of £1 each		1,000
Profit and loss account: Holding	250	
Subsidiary	32	282
		1,282
Minority interest* in Subsidiary		120
		1,402

**Minority interest* (q.v.) reflects the interest of the holders of 20 per cent of the issued capital not held by Holding.

†SSAP 22 requires that *goodwill* be written off against reserves or amortised over the period of its effective life.

ACT. Letters standing for *advance corporation tax* (q.v.).

activity 1. A particular direction in which a business applies its effort. Thus a business may have a manufacturing activity and a selling activity.

2. A measure of the general level of business. Thus a business with a large *turnover* (q.v.) may be said to be operating at a high level of activity.

act of bankruptcy. An action by a debtor which leads to a presumption of insolvency and therefore legally allows a creditor to instigate *bankruptcy* (q.v.) proceedings. Acts of bankruptcy include assigning property to a trustee for the benefit of creditors, leaving the country with the intention of delaying payment to creditors and giving notice of the suspension of the payment of debts.

actuary. A professional person concerned with assessing the financial implications of *insurable risks* (q.v.). An actuary will probably be employed by an insurance company or a pension fund. The recognised professional bodies of actuaries in the UK are the Institute of Actuaries (in England) and the Faculty of Actuaries (in Scotland).

added value. *See* VALUE ADDED.

additional voluntary contribution. An amount paid by an employee into an approved occupational pension scheme over the amount required under his contract of employment. The purpose of making an additional voluntary contribution is to increase the amount of the pension ultimately payable. It would be made only by a person entering the pension scheme midway through a career when he could otherwise not accumulate a full pension entitlement. Provided that all pension contributions, compulsory and voluntary, do not total more than 15 per cent of income, full income tax relief is given in respect of them. This proportion is increased to 17½ per cent for persons close to retirement.

adjusting event. An event occurring after the date of a balance sheet which provides new or additional information on conditions existing at the date of the balance sheet. The term appears in SSAP 17, Accounting for Post Balance Sheet Events. An adjusting event is required by the Standard to be reflected in the accounts. Examples of adjusting events are:

(*a*) A valuation of property indicating a permanent diminution in value as at the balance sheet date.

(*b*) The insolvency of a debtor included in the year end figure for debtors.

(*c*) The announcement of a tax rate applicable to the year ended on the balance sheet date.

(*d*) The discovery of an error in the accounts.

(*e*) Decisions taken by the Board of Directors relating to the year concerned, e.g. amount of proposed dividend or of transfer to reserves.

adjustment. An amendment to an accounting figure which is basically correct but which needs to allow for some circumstance not known when it first arose. Adjustments in accounting are very common. Good examples are the adjustments made to *trial balance* (q.v.), figures for *accruals* (q.v.) and *prepayments* (q.v.) before they are charged in the profit and loss account. Adjustments may also be made to a correctly calculated figure of profit to determine the taxable profit where statutory rules for calculation have to be observed.

administrator. A person appointed to deal with the affairs of a deceased person where there is no *executor* (q.v.). This might occur because no executor is named in the *will* (q.v.) or because the named executor is unable or unwilling to act. An administrator is, however, most commonly appointed in an *intestacy* (q.v.), i.e. where no will was left.

ad valorem. In proportion to value. Thus an ad valorem tax on an article is a tax whose total depends on the value of the article. *Value added tax* (q.v.) is an example of an ad valorem tax.

advance. A loan. Thus a bank manager might make an advance to a business by allowing it an overdraft. The term is used in the *Partnership Act 1890* (q.v.) to refer to an amount paid into the business by a partner over and above his agreed capital contribution. In the absence of any agreement to the contrary the Act entitles the partner to interest on such an advance as a first charge against distributable profit.

advance corporation tax. An amount of *corporation tax* (q.v.) which becomes payable in advance of its otherwise due date as a consequence of the payment, by the company, of a *dividend* (q.v.). The amount of the advance corporation tax is equal to the *tax credit* (q.v.) imputed to the dividend. It should be noted that the payment of advance corporation tax does not ordinarily affect the total tax burden falling on the company but merely the timing of the payment. Any payment for advance corporation tax may be reduced by the amount of tax credits imputed to any *franked investment income* (q.v.) of the company.

advancement. The action of a *trustee* (q.v.) in using funds from a trust for a benefit of the beneficiary in advance of the time when the benefit would normally become available. For example, a trust might be set up whereby the money of a deceased was to provide an income for his widow for life and then go to his children. The trustee might make advancement of some of the capital to the children during the lifetime of the widow. The power of advancement must be given under the deed constituting the trust.

试读结束，需要全本PDF请购买 www.ertongbook.com

adverse variance. A difference between an actual expense or cost and the amount of a budgeted or *standard cost* (q.v.) such that its effect is to reduce profit below that planned. Thus if materials, for example, are bought at a higher price than standard this will lead to an adverse variance. All adverse variances of *material* (q.v.) amount should be investigated so that the source of any loss or inefficiency can be eliminated as early as possible.

advice note. A document accompanying a delivery of goods which advises as to the kinds, quality and quantity of goods delivered. It does not contain any details of price or total cost.

age allowance. An allowance given against income in calculating the amount of tax due when the taxpayer is over the age of 65. It is given in place of, and is greater than, the normal *personal allowance* (q.v.).

agent. One who acts on behalf of another with the authority of that person. The person for whom the agent acts is known as the *principal* (q.v.). A person wishing to engage in negotiations on matters which he did not himself fully understand, or in which he was not particularly skilled, might employ an agent with the necessary expertise to negotiate on his behalf. Where an agent is concerned with entering into a contract on behalf of the principal, it is the principal who is bound by the terms of the contract and who receives the benefit of it.

aggregate depreciation. A total amount of depreciation. Where an aggregate is given no analysis is supplied of its components according to assets depreciated or according to periods in which it was charged

EXAMPLE. A certain company charges depreciation as follows:

Plant and machinery	£25,260
Furniture and fittings	12,620
Motor vehicles	15,920
	£53,800

The aggregate depreciation is thus £53,800.

AGM. Initial letters of *annual general meeting* (q.v.).

AICPA. Abbreviation of the *American Institute of Certified Public Accountants* (q.v.).

A list. A list of the holders of partly paid shares in a company at the time of its *winding up* (q.v.). Persons appearing on the A list are liable to contribute to any deficiency up to the amount remaining unpaid on their shares. In the event of their default recourse may be had to persons appearing on the *B list* (q.v.).

allocation. The direct association of a particular cost with a specified *activity* (q.v.) or *cost centre* (q.v.). The process of allocation, in which a cost is dealt with intact, should be compared with the process of *apportionment* (q.v.).

allonge. A piece of paper gummed on to a *bill of exchange* (q.v.) or similar *negotiable instrument* (q.v.) to provide more space for *endorsements* (q.v.) when the space originally available on the back of the document has been used. An allonge is necessary only for a document which is circulated widely during its currency.

allotment. The issue of shares or debentures to a specific holder in response to an *application* (q.v.). Shares may be allotted to those who have applied for them in response to an *offer for sale* (q.v.) or a *prospectus* (q.v.). In the event of an *oversubscription* (q.v.) the basis of allotment must be determined by the directors of the company. They may allot in full to some applicants and reject others or they may allot only a proportion of the number of shares applied for to each applicant. A *provisional allotment* (q.v.) on a *rights issue* (q.v.) may also be made to existing shareholders. *Bonus shares* (q.v.) may be allotted to existing shareholders. In these two latter cases the number of shares allotted depends on the level of existing holdings.

allowance. An amount permitted to be set off against income or profit in determining the amount liable to tax. An example is the *personal allowance* (q.v.) which every individual payer of income tax is given. Another example is the *capital allowance* (q.v.) given to a business in respect of expenditure on designated *fixed assets* (q.v.).

all risks. A type of insurance which covers the insured for any loss or damage to the property insured howsoever caused. The *premium* (q.v.) for this type of policy is higher than that for a policy where the cover is restricted to loss or damage caused by theft or by fire.

American Accounting Association. An association of persons interested in accounting education and research. Most of its members are either practitioners or academics. It is based in the USA but has an international membership. Its quarterly journal, *Accounting Review* (q.v.), is a respected academic publication. The association was formed in 1916, adopting its present name in 1936.

American Institute of Certified Public Accountants. The premier body of professionally qualified accountants in the USA. It is often referred to by its initial letters, AICPA. A member is entitled to the designatory letters CPA after his or her name and to be called a certified public accountant. The institute was founded in 1887.

amortisation. The process of writing off an asset over a period of years. The term is thus almost synonymous with *depreciation* (q.v.). Whereas the term depreciation is applied to tangible fixed assets with fairly clearly defined lives, however, the term amortisation is normally applied to intangible assets with imprecise lives. *Goodwill* (q.v.) and *development* (q.v.) costs are examples of assets which might be amortised.

analysis. The breakdown of a global figure into its component parts. In accounting, for example, we meet the analysis of *variances* (q.v.) or the analysis of sales. The use of columnar books of account is one way in which analysis can be achieved.

EXAMPLE. Analysis of sales for November:

Region	*£*
North East	42,500
North West	59,260
Midlands	77,640
South East	63,440
South West	31,880
Total sales	£274,720

annual general meeting. A meeting of a company's shareholders which must, by law, be held in each year. The business transacted at an annual general meeting includes such matters as consideration of the accounts, appointment of auditors and appointment of directors. Most annual general meetings are largely formal and are not attended by any large number of shareholders.

annual percentage rate. The true rate of interest on money lent. The law now requires that all retail lenders of money state in their quotations an annual percentage rate (APR). This is so that all such quotations are on a comparable basis. Previous practice was frequently to quote interest as a percentage of the initial sum advanced, when it appears to be at a much lower rate.

EXAMPLE. Shylock offers to lend Portia £1,000 at a stated rate of interest of 10 per cent per annum, the total debt to be repaid in equal monthly instalments over two years. A bank would charge 12 per cent per annum on an overdraft and thus appears to be more expensive. Shylock calculates the amount due as follows:

Loan	£1,000
Add Two years' interest at 10% (2 × 10% = 20%)	200
Total due	£1,200
24 monthly instalments of	£50

£50 per month for two years is an annual percentage rate of 18 per cent, nearly double the quoted rate and very unattractive as compared with the bank overdraft. This is because the amount outstanding is reduced progressively but the interest charge was calculated on the initial loan.

annual report. A document published annually by a company for its shareholders and debenture holders. A copy must also be filed with the *Registrar of Companies* (q.v.). The content and form of the annual report is laid down in the Companies Act 1985. It comprises the following main documents:

(*a*) balance sheet,
(*b*) profit and loss account,
(*c*) directors' report,
(*d*) auditors' report.

Other documents will be included in compliance with accounting standards or at the discretion of the company.

annual return. A document which must be submitted annually by every company to the *Registrar of Companies* (q.v.). It should be submitted within 42 days of the *annual general meeting* (q.v.) made up to a date 14 days after the meeting. It includes the following particulars:
(*a*) address of registered office;
(*b*) location of registers of members and of debenture holders;
(*c*) details of share and loan capital in issue at the date of the return;
(*d*) the indebtedness of the company in respect of charges on its assets;
(*e*) a list of names, addresses and shareholdings of all who have been members since the date of the last return;
(*f*) particulars of the directors and secretary at the date of the return.

annuitant. A person who receives an *annuity* (q.v.).

annuity. A fixed annual payment. It may continue indefinitely, but frequently will continue only during the lifetime of a named individual. An annuity may be purchased (from a life assurance company) on terms which depend on current and prospective rates of interest and the actuarial life expectancy of the purchaser. Purchasing an annuity is a useful way in which retirement income can be provided out of capital without the risk that it will become exhausted. The annuity is taxed in a manner which takes into account that it is notionally partly income and partly a repayment of invested capital. The recipient of an annuity is described as an annuitant.

annuity method for depreciation. A method of providing for depreciation which takes into account the interest forgone by the funds invested in the depreciating asset.

EXAMPLE. A machine is owned having an initial cost of £10,000, a life of four years and no *scrap value* (q.v.). Under the *straight line method* (q.v.) of depreciation the annual charge is £2,500. Under the annuity method a notional rate of interest has to be applied. Let us say that the rate is 10 per cent per annum. £1 receivable annually for four years at 10 per cent is £3.169 (from tables). The depreciation charge is therefore

$$\frac{£10{,}000}{3.169} = £3{,}155$$

This will be partly offset by the credit in the profit and loss account for the notional interest earned:

		Profit and loss account		
		Debit	*Credit*	*Net*
	£	£	£	£
Opening value of asset	10,000			
Add Notional interest 10%	1,000		1,000	
	11,000			
Less Depreciation	3,155	3,155		2,155
Net book value after 1 year	7,845			
Add Notional interest	785		785	
	8,630			
Less Depreciation	3,155	3,155		2,370
Net book value after 2 years	5,475			
Add Notional interest	548		548	
	6,023			
Less Depreciation	3,155	3,155		2,607
Net book value after 3 years	2,868			
Add Notional interest	287		287	
	3,155			
Less Depreciation	3,155	3,155		2,868
Net book value after 4 years	Nil			

application. An offer by an investor to subscribe for a specified number of shares in a company. The offer must be made on the prescribed form which is issued only with a *prospectus* (q.v.). This means that every applicant can be deemed to have read the prospectus. The application will state the number of shares applied for, the total amount enclosed and the full name and address of the applicant. It must be signed and a cheque enclosed with it of the amount due on application. Applications are usually subject to the condition that they be for a specified minimum number of shares and that they be for prescribed round numbers of shares (e.g. 500, 1,000, 1,500, etc.). An application, once sent, is irrevocable and may be accepted by the company for any number of shares up to the full number applied for.

application and allotment account. An account used when a company makes an offer for sale of its shares. There will be credited to the account all money received with the applications for shares. When the basis of *allotment* (q.v.) is determined there will be debited to the account the *nominal value* (q.v.) of the shares issued, the total of *share premium* (q.v.) and any cash returned to unsuccessful applicants.

apportionment. The process whereby a single amount is divided according to some formula into portions which are then attributed to some *activity* (q.v.), some *cost centre* (q.v.) or some person. The term arises in a number of different connections.

1. Partnership. A *partnership* (q.v.) is a single business whose profit has to be apportioned amongst two or more proprietors. The formula by which this apportionment takes place will be contained in the partnership agreement.

2. Trusts. A *trust* (q.v.) may be constituted so that there is one *beneficiary* (q.v.) or group of beneficiaries entitled to all of the income from the trust fund during their lifetime/s and a residuary beneficiary or group of beneficiaries who will receive the capital value of the fund subsequently. All receipts of the trust must be properly accounted for, distinguishing between revenue and capital receipts. Normally this is a straightforward matter of proper identification and presents no difficulty. Apportionment will be required, however, where there is a receipt of money which is partly capital and partly income, e.g. the proceeds of the sale of shares *cum. div.* (q.v.)

3. In full or *absorption costing* (q.v.) apportionment will be required of expenses which are incurred to benefit a number of *cost centres* (q.v.) but which cannot be identified specifically with any of them. Apportionment of the expenses will be made on some more or less arbitrary basis, e.g. floor area or number of employees.

appreciation. An increase in the value of an asset. Appreciation is caused by a change in the market in which the asset is bought and sold. It is most frequently encountered in the case of land and buildings which commonly increase in value over time. Securities dealt in on the Stock Exchange may also appreciate. Appreciation often goes unrecognised in financial accounting. Where it is recognised the surplus so created should not be regarded as a distributable reserve until it has been realised.

appropriation account. An account, normally annexed to the profit and loss account, showing how the business's profit has been deployed in the period to which the account relates. The appropriation account for a *partnership* (q.v.) will show the profit divided according to the partnership agreement before transfer to the partners' *current accounts* (q.v.). The appropriation account for a *limited company* (q.v.) details taxation, dividends paid and proposed, and transfers to reserves.

APR. Letters standing for *annual percentage rate* (q.v.).

arbitrage. A process whereby an investor buys and sells securities and adjusts his financing arrangements so as to take advantage of market inequalities in risk and return. It is the main mechanism whereby the market is brought into an equilibrium where the returns on securities are commensurate with the risk attaching to them. Arbitrage may be found in markets other than that for securities, e.g. the commodity market or the foreign currency market.

arm's length. A term descriptive of negotiation where each party is concerned only to advance his own interests and not those of the other party. It may be important to determine whether a transaction was at arm's length in order to ascertain whether a *fair value* (q.v.) was established by the transaction.

EXAMPLE. A man seeks to sell his car to a stranger. The negotiations are at arm's length because he is seeking to get the best price he can without regard to the interests of the stranger. The negotiations break down and the man then sells the car to his son at well below its true value. This is not an arm's length transaction because the man has become concerned to see that his son gets a cheap car.

Articles of Association. A document setting out the rules governing the internal conduct of a company's affairs. It will deal with such matters as the arrangements for meetings, the appointment and qualifications of directors and the company's power to borrow and to purchase its own shares. A model set of Articles appears as Table A in the Companies Act 1985 and this may be adopted, if a company so wishes, as its Articles of Association. The Articles, a copy of which must be filed with the *Registrar of Companies* (q.v.) when a company is registered, may be amended by means of a *special resolution* (q.v.) of the company.

assented stock. A security whose holders have agreed to some course of action so that that agreement is binding on a purchaser of the security. An example would be where a *convertible debenture* (q.v.) has been presented for conversion into equity. Assented stock may have a different market price from non-assented stock and may exist side by side with it.

assessment. A statement, issued by the Inland Revenue, to a company or individual giving the amount of income on which tax is to be charged and the amount of tax which, in consequence, is due. A taxpayer may appeal against an assessment on the grounds that it is incorrect and the appeal must be made within 30 days of its issue.

asset. Some property or legal right owned by an individual or a company to which a money value can be attached.

asset stripping. A process whereby a company acquires a controlling interest in another company for the purpose of disposing of its assets. The opportunity arises where the management of the company taken over has underutilised the assets so that the share price is below the market value of the underlying assets. Asset stripping makes a quick profit for the company engaging in it but brings to an end the business of the company taken over.

assignment. The transfer of rights owed by another to some third party. For an assignment to have legal effect it must be absolute, in writing and be communicated to the one owing the right. The most usual example of assignment is when a person who is owed money assigns that debt to another who, perhaps, has greater power or patience to collect it, for money.

associated company. A company in which an investment fulfilling certain conditions is held. These conditions are:

(*a*) the investing company's interest in the associated company is effectively that of a partner in a joint venture or consortium, or

(*b*) the investing company's investment in the associated company is for the long term and is substantial (i.e. not less than 20 per cent of the equity carrying voting rights) and, having regard to the disposition of the other shareholdings, the investing company is in a position to exercise a significant influence over the associated company.

In both cases it is essential that the investing company participates in commercial and financial policy decisions of the associated company including the distribution of profits.

This definition of an associated company derives from SSAP 1 which prescribes that, for associated companies, the investing company's share of their profits less losses should be taken into the consolidated profit and loss account (and not merely the dividends received). On the balance sheet the investment in the associated company should be valued at cost less amounts written off plus the investing company's share of post-acquisition retained profit and reserves.

assurance. Indemnity against the financial consequences of some inevitable event such as death. The term *insurance* (q.v.) is applied to indemnity against the consequences of events which may not occur, e.g. destruction of a property by fire.

attainable standard. A particular basis for setting a *standard cost* (q.v.). Its feature is that standards are set so as to represent a realistic challenge to attainment. Thus an attainable standard will require a level of efficiency better than has been experienced in the past but less good than that which could be achieved in the most favourable conditions possible. *See also* IDEAL STANDARD *and* NORMAL STANDARD.

attestation. The action of signing a document as the *witness* (q.v.) to the signature of another. A *deed* (q.v.) requires attestation as does a *will* (q.v.). The responsibility of one who attests a document is merely to satisfy himself that the signatory was the one who it purports to be and that he signed voluntarily. It is not necessary for the witness to understand or approve of the contents of the document itself.

attributable profit. That part of the total profit currently estimated to arise over the duration of a *long-term contract* (q.v.) which fairly reflects profit arising from the work done to date. The term is used in SSAP 9 which allows credit to be taken in the profit and loss account for attributable profit on unfinished long-term contracts.

EXAMPLE. A civil engineering company is building a bridge which will take 5 years to complete and will yield an ultimate total profit of £1 million. Having regard to the proportion of the work done and the costs incurred and still to be incurred, the company will be able to attribute part of that total profit to each of the five years.

auction. An organised method of establishing a fair market price for some property. The potential buyers are assembled and invited to make competitive offers, or bids, for the property. It is then sold to the highest bidder. The auction is conducted by an auctioneer who will command the necessary skills to draw the maximum possible price from the gathering and to judge when this has been reached. The completion of the auction is signified by the auctioneer (often by a hammer blow) and there is then a valid contract between the successful bidder and the seller. The seller may place a *reserve price* (q.v.) on the property. In that event it will not be sold unless bidding passes that level. An auction is a common device for selling items of a unique or unusual nature such as large houses, works of art and antique furniture.

audit. An examination of accounts and their underlying records in order to be able to express an opinion on their honesty and veracity. Many forms of organisation undergo an audit either voluntarily, under their own rules, or under the requirements of law. An audit may be an *internal audit* (q.v.) conducted by employees of the organisation or one conducted by independent persons from outside. The best-known example of an audit is that which, by law, must be undergone annually by every limited company. The auditor must be independent and he must be appropriately qualified (in most cases by membership of a professional accountancy body). He must produce a report for the members of the company expressing, amongst other things, an opinion on whether the accounts give a *true and fair view* (q.v.) and on whether they comply with company legislation.

Auditing Standards. Statements prescribing the conduct of audits. These are issued by the Auditing Practices Committee which was set up by those professional accountancy bodies whose members have the statutory right to audit the accounts of limited companies. These are the three Institutes of Chartered Accountants in the British Isles and the Chartered Association of Certified Accountants.

auditor. One who conducts an *audit* (q.v.).

auditors' remuneration. The total amount paid to the auditors of a company for their services in that capacity, including out-of-pocket expenses. The accounting significance of auditors' remuneration is that it is required to be disclosed in the published accounts of the company.

auditors' report. An annual report from the auditors of a company to its shareholders required by statute to be annexed to the accounts. The auditors are required to state explicitly in the report whether or not it is their opinion that the accounts give a *true and fair view* (q.v.) and whether or not they comply with the requirements of the Companies Acts 1985. If they are of a contrary opinion they must give details of the matters which have led to this. Where the auditors have no reservations concerning the accounts they will give an unqualified report which is brief and formal. Where reservations do exist these will be set out in full giving what is known as a qualified auditors' report.

audit programme. A plan of work set out by an *auditor* (q.v.). The establishment of such a programme is an essential safeguard to ensure that no important part of the work is overlooked. The programme will very often be in a standard form with a few additions or deletions necessitated by the particular features of the job to which it relates.

试读结束，需要全本PDF请购买 www.ertongbook.com