

BEST-SELLING DICTIONARY,  
CONTAINING OVER 6,750 TERMS

Oxford



DICTIONARY OF  
Business and  
Management



A Dictionary of  
**Business and  
Management**

---

FOURTH EDITION

**OXFORD**  
UNIVERSITY PRESS

# OXFORD

UNIVERSITY PRESS

Great Clarendon Street, Oxford OX2 6DP

Oxford University Press is a department of the University of Oxford.  
It furthers the University's objective of excellence in research, scholarship,  
and education by publishing worldwide in

Oxford New York

Auckland Cape Town Dar es Salaam Hong Kong Karachi

Kuala Lumpur Madrid Melbourne Mexico City Nairobi

New Delhi Shanghai Taipei Toronto

With offices in

Argentina Austria Brazil Chile Czech Republic France Greece

Guatemala Hungary Italy Japan Poland Portugal Singapore

South Korea Switzerland Thailand Turkey Ukraine Vietnam

Oxford is a registered trade mark of Oxford University Press  
in the UK and in certain other countries

Published in the United States

by Oxford University Press Inc., New York

© Market House Books Ltd. 1990, 1996, 2002, 2006

The moral rights of the author have been asserted

Database right Oxford University Press (maker)

First published 1990 as *A Concise Dictionary of Business*

Second edition 1996

Third edition 2002

Fourth edition 2006

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,  
without the prior permission in writing of Oxford University Press,  
or as expressly permitted by law, or under terms agreed with the appropriate  
reprographics rights organization. Enquiries concerning reproduction  
outside the scope of the above should be sent to the Rights Department,  
Oxford University Press, at the address above

You must not circulate this book in any other binding or cover  
and you must impose the same condition on any acquirer

British Library Cataloguing in Publication Data

Data available

Library of Congress Cataloging in Publication Data

Data available

Typeset by Market House Books Ltd.

Printed in Great Britain

on acid-free paper by

Clays Ltd, St Ives plc

Reading, Berkshire

ISBN 0-19-280648-3 978-0-19-280648-2

10 9 8 7 6 5 4 3 2 1

OXFORD PAPERBACK REFERENCE

---

A Dictionary of  
**Business and  
Management**

---

## Preface

*A Dictionary of Business and Management* is the fourth edition of *A Concise Dictionary of Business*, first published in 1990. The original edition was prepared on the assumption that it would be of use to students of all kinds of business courses, ranging from GCSE Business Studies to degree and postgraduate business subjects, as well as to business people and their professional advisers (lawyers, bankers, accountants, managers, insurers, etc.)

Although both sales and feedback suggest that the book succeeded admirably in this remit, subsequent editions were enlarged to reflect changes in business practice and culture. The second edition paid greater attention to such matters as business strategy and marketing, while the third brought the book into the 21st century with a special emphasis on the use of the Internet in commerce.

In this fourth edition coverage of management terms and theory has been greatly increased to reflect the growing emphasis on human resources and organizational behaviour now found in MBAs and business courses at all levels. Several hundred new entries have been added to explain the concepts, vocabulary, and jargon associated with current theories of leadership, motivation, and team building. The book has also been fully updated to include the latest changes from such fast-moving fields as law, taxation, accounting, finance, and computing. We have added feature spreads on a number of key topics and there is an appendix of useful websites.

J.L. 2006

Note: An asterisk (\*) placed before a term in a definition indicates that this term can be found as an entry in the dictionary and will provide further information. Synonyms and abbreviations are usually found within brackets immediately following a headword.

---

# Credits

## Editor of the fourth edition

Jonathan Law (Market House Books Ltd)

## Editors of the previous editions

John Pallister MA, PhD (Cardiff Business School)

Alan Isaacs BSc, PhD (Market House Books Ltd)

## Market House Books Ltd staff

Jessica Foote

Sandra McQueen

Anne Stibbs

## Contributors

Graham Betts

Barry Brindley BA

Peter Chadwick BA, MSc,

University of Gloucestershire

Leslie de Chernatony PhD

City University Business School

Farooq Chudri MA

Bristol Business School

Joan Gallagher MA,

Personnel Consultant

Nicholas Hand MSc, Bcomm

University of Greenwich

Ian Holden BSc, MBA,

Peter Lafferty MSc

Catherine Law MA, ACA

Clive Longhurst ACII

Gary Owen, MSc, FFIS

University of Greenwich

Edward Philips LLB, BCL,

University of Buckingham

John Smullen BSc, MA, MSc, MBA

University of Greenwich

Stefan Szymanski BA, MSc, PhD,

London Business School

R. M. Walters MA, FCA,

Chartered Accountant

S. L. Williams MA,

University of Buckingham

Matthew Wright MA, MPhil

# Contents

|   |      |
|---|------|
| Preface                                     | vii  |
| Credits                                     | viii |
| Dictionary                                  | 1    |
| Bankruptcy Law (Feature)                    | 51   |
| Checklist for a Business Plan (Feature)     | 78   |
| Assessment of Damages (Feature)             | 151  |
| Data Protection Act (1998) (Feature)        | 153  |
| The Financial Times Share Indexes (Feature) | 219  |
| International Paper Sizes (Feature)         | 287  |
| Mortgage Law (Feature)                      | 352  |
| The Service Economy (Feature)               | 475  |
| Appendix                                    |      |
| Useful websites                             | 565  |



**A1** A description of property or a person that is in the best condition. In marine insurance, before a vessel can be insured, it has to be inspected to check its condition. If it is "maintained in good and efficient condition" it will be shown in \*Lloyd's Register of Shipping as 'A' and if the anchor moorings are in the same condition the number '1' is added. This description is also used in life assurance, in which premiums are largely based on the person's health. After a medical examination a person in perfect health is described as 'an A1 life'.

**AA** Abbreviation for \*Advertising Association.

**AAP** Abbreviation for \*affirmative action programme.

**abandonment** The act of giving up the ownership of something covered by an insurance policy and treating it as if it has been completely lost or destroyed. If the insurers agree to abandonment, they will pay a total-loss claim (see **ACTUAL TOTAL LOSS**; **CONSTRUCTIVE TOTAL LOSS**). This often occurs in marine insurance if a vessel has run aground in hazardous waters and the cost of recovering it would be higher than its total value and the value of its cargo. It also occurs during wartime when a vessel is captured by the enemy. If the owner wishes to declare a vessel and its cargo a total loss, **notice of abandonment** is given to the insurer; if, subsequently, the vessel or its cargo are recovered, they become the property of the insurer.

**ABB** Abbreviation for \*activity-based budgeting.

**abbreviated accounts** A shorter form of \*annual accounts that may be filed with the \*Registrar of Companies by a company qualifying as a small or medium-sized company under the UK Companies Act (1985; amended 2004). The use of abbreviated accounts can cut costs and save

time. It can also minimize the information made available to others, especially business rivals. See also **SUMMARY FINANCIAL STATEMENT**.

**ABC 1.** Abbreviation for \*Audit Bureau of Circulation. **2.** Abbreviation for \*activity-based costing.

**ABC classification (ABC ranking)** A method of ranking items held in \*inventory enabling particular attention to be given to those that, if incorrectly managed, will be most damaging to the effectiveness or the efficiency of an operation. Items are categorized according to their value of usage, i.e. their individual value multiplied by their usage rate. In most cases \*Pareto's Rule then applies, so that approximately 20% of the items accounts for approximately 80% of the value of the stock held; these items are classified as Class A items. Class B covers the 30% of items that represent the next 10% of value. Class C covers the remaining 50%, which accounts for the remaining 10% of value. In \*material requirements planning (MRP), ranking is used to categorize inventory by its impact value, i.e. whether or not production will stop if this item is out of stock.

**ABI** Abbreviation for \*Association of British Insurers.

**ability to pay** The principle that taxes should be levied on the basis of taxpayers' ability to pay. This normally leads to the view that as income or wealth increases, its marginal utility (its value to its owner) decreases so that higher rates of tax can be levied on the higher slices. A typical \*progressive tax of this sort is UK \*income tax. Compare **BENEFIT TAXATION**; **FLAT TAX**; **REGRESSIVE TAX**.

**abnormal loss** See **NORMAL LOSS**.

**abnormal return** A rate of return for taking a particular risk that is greater than that required by the market. The excess return is usually measured as being rela-

a

tive to that which the \*capital asset pricing model or the \*arbitrage pricing theory requires. *See also* ACTIVE MANAGEMENT; ANOMALY; EFFICIENT MARKETS HYPOTHESIS.

**above par** *See* PAR VALUE.

**above-the-fold** Originally denoting an advertisement displayed above the fold in printed media; in computer terms it indicates that a \*banner advertisement or other content on a web page is displayed without the need to scroll. This is likely to give higher \*clickthrough, but note that the location of the 'fold' within the \*web browser is dependent on the screen resolution of a user's own computer.

**above-the-line** 1. Denoting those entries printed above the horizontal line on a company's \*profit and loss account that separates the entries that establish the profit (or loss) from the entries showing how the profit is distributed. Prior to the introduction of Financial Reporting Standard (FRS) 3, Reporting Financial Performance, in October 1992, it was understood that any exceptional items that were within the ordinary activities of the business were shown above the line, while any extraordinary items that were outside the ordinary activities of the business were shown below it. There was, however, criticism that the definitions of extraordinary and exceptional items could be manipulated to improve the \*earnings per share figure. For example, if a building was sold for a large profit it could be interpreted as being exceptional and included in the earnings per share, whereas if it was sold at a loss it could be interpreted as being extraordinary and not included in the earnings per share. Since the introduction of FRS 3, both exceptional and extraordinary items are shown above the line and are included in the earnings per share. 2. Denoting advertising expenditure on mass media advertising, including press, television, radio, and posters. It is traditionally regarded as all advertising expenditure on which a commission is payable to an \*advertising agency. 3. Denoting transactions concerned with revenue, as opposed to capital, in national accounts. *Compare* BELOW-THE-LINE.

**ABP** Abbreviation for \*Associated British Ports.

**absence culture** An \*organizational culture in which a certain degree of \*absenteeism has come to be accepted as the norm. In companies with such a culture it may become routine for managers and workers to take occasional days off 'sick' when there is no justification for this.

**absenteeism** Absence from work for which there is no legitimate reason; it is often self-certified sick leave lasting for one day at a time. Most prevalent in large organizations, it can be a major problem. In order to combat it some organizations have introduced flexible working hours, increased annual leave, introduced personal days leave in addition to normal holiday entitlement, and devised incentive schemes for full attendance. High rates of absenteeism can be linked to low levels of \*job satisfaction and an \*absence culture in the workplace.

**absolute cost advantage** The cost advantage enjoyed by a country in producing certain goods, compared to costs in other countries. The costs of producing similar products vary between different countries because certain resources, such as labour, raw materials, and energy, will be cheaper in some countries than in others. Multinational enterprises are able to take advantage of these cost differences by buying components or products from countries that have these advantages. For example, a motor-vehicle manufacturer in an economy with high labour costs may purchase certain components from another country with significantly lower labour costs. *Compare* COMPETITIVE ADVANTAGE.

**absolute performance standard** A standard set at the theoretical limit of performance. For example, in manufacturing, the theoretical quality standard of 'zero defects', which it is impossible to improve on, might be set as the absolute performance standard. Such standards may be achievable in practice or may form an ideal against which an organization may judge its progress.

**absorption (cost absorption; overhead absorption)** An accounting process, used in \*absorption costing, in which the \*overhead of an organization is charged to the production of that organization by the use of \*absorption rates.

## PRODUCTION MEASURE

units, weight, or volume  
 direct labour hours  
 machine hours  
 direct labour cost  
 direct material cost  
 prime cost  
 standard hours

## ABSORPTION RATE

rate per unit, weight, or volume  
 rate per direct labour hour  
 rate per machine hour  
 % on direct labour cost  
 % on direct material cost  
 % on prime cost  
 rate per standard hour

## Absorption rate

**absorption costing (full absorption costing; total absorption costing)**

The \*cost accounting system in which the \*overheads of an organization are charged to the production by means of the process of \*absorption. Costs are first apportioned to \*cost centres, where they are absorbed using \*absorption rates. Although this method has the advantage of simplicity, it involves an essentially \*arbitrary allocation of costs; for this reason the system of \*activity-based costing is now widely preferred. *Compare* MARGINAL COSTING.

**absorption rate (overhead absorption rate; recovery rate)**

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

budgeted overhead/budgeted  
 production.

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

These rates have been used by accountants for over a century and they are still widely applied. Many, however, would argue that they cannot provide the accurate \*cause-and-effect allocations of costs that modern managers require; for this a system of \*activity-based costing must be used. *See also* TRADITIONAL COSTING SYSTEM.

**abstract of title** A document used in

conveyancing land that is not registered to show how the vendor derived good title. It consists of a summary of certain documents, such as conveyances of the land, and recitals of certain events, such as marriages and deaths of previous owners. The purchaser will check the abstract against title deeds, grants of probate, etc. This document is not needed when registered land is being conveyed, as the land certificate shows good title.

**ACA** Abbreviation for Associate of the \*Institute of Chartered Accountants.

**ACAS** Abbreviation for \*Advisory Conciliation and Arbitration Service.

**ACC** Abbreviation for \*Agricultural Credit Corporation Ltd.

**ACCA** Abbreviation for Associate of the Association of Chartered Certified Accountants. *See* CHARTERED CERTIFIED ACCOUNTANT.

**accelerated depreciation** A rate of \*depreciation of assets that is faster than the useful-life basis normally used to calculate depreciation. For example, a computer may be expected to have a useful life of four years when it is purchased; however, as a result of new product innovation, it is replaced after two years. If the useful-life basis had been used, the full cost would not have been charged to the accounts until the end of the fourth year; by accelerating the depreciation the full charge would be made earlier, reflecting the short life cycle of high-technology products. In the USA, the accelerated depreciation may be used to gain tax advantages.

**acceptable use policy (AUP)** The rules of permitted behaviour on a particular portion of the Internet.

**acceptance 1.** The signature on a \*bill

a

of exchange indicating that the person on whom it is drawn accepts the conditions of the bill. **2.** A bill of exchange that has been so accepted. Acceptances are divided into two categories: \*banker's acceptances and trade acceptances. **3.** Agreement to accept the terms of an offer; for example, the agreement of an insurance company to provide a specified insurance cover or of a trader to accept a specified parcel of goods at the offer price.

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

**acceptance number** The number of sample units specified in a sampling plan that must conform to the specifications if the batch is to be accepted. *See* ACCEPTANCE SAMPLING.

**acceptance sampling** A \*statistical process-control technique that uses inspection of a SAMPLE from a batch to decide whether to accept or reject the whole batch. In deciding the level of sampling, a balance has to be struck between achieving the desired quality levels and the cost of undertaking the sampling.

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

**accepting house** An institution specializing in accepting or guaranteeing \*bills of exchange. A service fee is charged for guaranteeing payment, enabling the bill to be discounted at preferential rates on the \*money market. The decline in the use of bills of exchange has forced the accepting houses to widen their financial activities, many of whom have returned to their original role as \*merchant banks.

**Accepting Houses Committee** A committee representing the \*accepting houses in the City of London. Members of the committee are eligible for finer discounts on bills bought by the Bank of England, although this privilege has been extended to other banks.

**acceptor** The drawee of a \*bill of exchange after acceptance of the bill, i.e. the acceptor has accepted liability by signing the face of the bill.

**accessibility** The degree to which a market segment can be reached and served.

**access lag** A delay caused by the limited data-transmission speed between the user and the Internet.

**access provider** A company providing services to enable an organization or individual to access the Internet. Access providers are divided into \*Internet service providers and \*on-line service providers.

**accident analysis** The use of analytical techniques drawn from \*ergonomics to identify the causes of accidents, to recognize potential hazards in the workplace, and to create action plans for reducing the risks of injury and system damage. *See* ACCIDENT PRONENESS.

**accident insurance** An insurance policy that pays a specified amount of money to the policyholder in the event of the loss of one or more eyes or limbs in any type of accident. It also pays a sum to the dependants of the policyholder in the event of his or her death. These policies first appeared in the early days of railway travel, when passengers felt a train journey was hazardous and they needed some protection for their dependants if they were to be killed or injured.

**accident proneness** The propensity of an individual to suffer (or cause) more than an average number of accidents. This is of particular interest in \*industrial and organizational psychology, which is anxious to analyse the causes of accidents in the workplace in order to reduce their occurrence and their inevitable costs. There is, however, some doubt as to whether such a condition does in fact exist, or whether some people are simply the un-

lucky statistics that go to make up a \*normal distribution of accident frequency.

On the other hand, it is not hard to imagine that accidents are more likely to occur at work (or anywhere else) if concentration is distracted by such extraneous factors as fatigue, illness, emotional preoccupation, or stress. Machine operators, for example, have certain skills at processing the information perceived by their senses so that an appropriate response is initiated. In addition to this skill, the personal qualities of the operator must also be involved in the smooth operation of the machine. If the operator is aware that his or her skill with the machine is less than it should be, this is not necessarily a recipe for accidents to occur; the intelligent operator will, under these circumstances, work more slowly, more cautiously, and with greater concentration. It is often, in fact, the more highly skilled operator, many of whose responses are automatic, who is more easily distracted by extraneous factors and thus more accident prone. Although organizational psychologists have been unable to provide a rigorous treatment of accident proneness, much valuable work has been done in analysing those activities that have high inherent risks and those environmental conditions (e.g. poor lighting, inappropriate room temperature) that increase the chances of accidents happening. Human error can be greatly reduced by improved design of equipment and work systems and through training programs and other administrative interventions.

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

**accommodation endorser** A person or a bank that endorses a loan to another party; for example, a parent company may endorse a bank loan to a subsidiary. The endorser becomes a guarantor and is secondarily liable in case of default. Banks may endorse other banks' acceptance

notes, which can then be traded on the secondary market.

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

**account** 1. A statement of indebtedness from one person to another. A provider of goods or services may render an account to a client or customer (*see* SALES INVOICE). 2. A named segment of a \*ledger recording transactions relevant to the person or the matter named. *See* BOOKS OF ACCOUNT. 3. An account maintained by a \*bank or a \*building society in which a depositor's money is kept. *See* CHEQUE ACCOUNT; CURRENT ACCOUNT; DEPOSIT ACCOUNT; SAVINGS ACCOUNT. 4. A period during which dealings on the \*London Stock Exchange were formerly made without immediate cash settlement. Up to the end of each account, transactions were recorded but no money changed hands. Settlement of all transactions made within an account was made ten days after the account ended. This practice changed in 1996 when the account system was abandoned. 5. In an advertising, marketing, or public-relations agency, a client of the agency from whom a commission or fee is derived, in return for the services. 6. *See* ANNUAL ACCOUNTS.

**accountability** An obligation to give an account. For limited companies, it is assumed that the directors of the company are accountable to the shareholders and that this responsibility is discharged, in part, by the directors providing an annual

a

report and accounts (see ANNUAL ACCOUNTS). In an accountability relationship there will be at least one principal and at least one agent. This forms the basis of an \*agency relationship.

**accountant** A person who has passed the accountancy examinations of one of the recognized accountancy bodies and completed the required work experience. Each of the bodies varies in the way they train their students and the type of work expected to be undertaken. For example, accountants who are members of the Chartered Institute of Public Finance and Accountancy generally work in local authorities, the National Health Service, or other similar public bodies, while members of the Chartered Institute of Management Accountants work in industry (see MANAGEMENT ACCOUNTING). Wherever accountants work, their responsibilities centre on the collating, recording, and communicating of financial information and the preparation of analyses for decision-making purposes. See also CHARTERED ACCOUNTANT; CHARTERED CERTIFIED ACCOUNTANT.

**account executive** The person in an advertising, marketing, or public-relations agency responsible for implementing a client's business. This involves carrying out the programme agreed between the agency and client, coordinating the activities, and liaising with the client.

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

**accounting concepts (accounting principles; fundamental accounting concepts)** The basic theoretical ideas devised to support the activity of accounting. As accounting developed largely from a practical base, it has been argued that it lacks a theoretical framework. Accountants have therefore tried to develop such a framework; although various concepts have been suggested, few have found universal agreement. However, four are often deemed to be fundamental:

- the \*going-concern concept assumes that the business is a going concern

until there is evidence to the contrary, so that assets are not stated at their break-up value;

- the \*accruals concept involves recording income and expenses as they accrue, as distinct from when they are received or paid;
- the \*consistency concept demands that accounts be prepared on a basis that clearly allows comparability from one period to another;
- the \*prudence concept calls for accounts to be prepared on a conservative basis, not taking credit for profits or income before they are realized but making provision for losses when they are foreseen.

These four principles were laid down in \*Statement of Standard Accounting Practice (SSAP) 2, Disclosure of Accounting Policies; they are also recognized in the EU's \*Fourth Accounting Directive and the UK Companies Acts together with a fifth principle, the \*accounting entity concept. SSAP 2 has now been superseded by \*Financial Reporting Standard (FRS) 18, which was issued in December 2000: this states that the consistency concept and the prudence concept should no longer be regarded as fundamental. FRS 18 also identifies four key objectives of financial information that can be regarded as fundamental principles: \*comparability, \*relevance, \*reliability, and \*understandability.

**accounting entity (entity; business entity; reporting entity)** The unit for which accounting records are maintained and for which \*financial statements are prepared. The **accounting entity concept** (or **entity concept** or **separate entity concept**) is the principle that financial records are prepared for a distinct unit or entity regarded as separate from the individuals that own it. This will often be an incorporated \*company, whose treatment as a separate accounting entity is required by law. For sole traders and partnerships accounts are also prepared to reflect the transactions of the business as an accounting entity, not those of the owner(s) of the business. Changing the boundaries of the accounting entity can have a significant impact on the accounts themselves, as these will reflect the purpose of the accounts and for whom they are prepared.

**accounting event** A transaction or change (internal or external) recognized by the accounting recording system. Events are recorded as debit and credit entries. For example, when a sale is made for cash the double entry for the sales transaction would be debit bank, credit sales (see DOUBLE-ENTRY BOOK-KEEPING).

**accounting package** See BUSINESS SOFTWARE PACKAGE.

**accounting period** **1. (financial period; period of account)** The period for which a business prepares its accounts. Internally, management accounts may be produced monthly or quarterly. Externally, \*financial statements are produced for a period of 12 months, although this may vary when a business is set up or ceases or if it changes its accounting year end. See ACCOUNTING REFERENCE DATE. **2. (chargeable account period)** A period in respect of which a \*corporation tax assessment is raised. It cannot be more than 12 months in length. An accounting period starts when a company begins to trade or immediately after a previous accounting period ends. An accounting period ends at the earliest of:

- 12 months after the start date,
- at the end of the company's period of account,
- the start of a winding-up,
- on ceasing to be UK resident.

**accounting policies** The specific accounting bases adopted and consistently followed by an organization in the preparation of its \*financial statements. These bases will have been determined by the organization to be the most appropriate for presenting fairly its financial results and operations; they will concentrate on such specific topics as pension schemes, \*goodwill, research and development costs, and \*foreign exchange. Under \*Statement of Standard Accounting Practice 2 and its successor, \*Financial Reporting Standard 18, companies are required to disclose their accounting policies in their \*annual accounts.

**accounting principles** See ACCOUNTING CONCEPTS.

**accounting rate of return (ARR)** An \*accounting ratio that expresses the profit of an organization before interest and tax-

ation, usually for a year, as a percentage of the capital employed at the end of the period. Variants of the measure include using profit after interest and taxation, equity capital employed, and the average of opening and closing capital employed for the period. Although ARR can be used to forecast return on an investment project, \*discounted cash flow measures are acknowledged to be superior for this purpose.

**accounting ratio (financial ratio)** A ratio calculated from two or more figures taken from the \*financial statements of a company in order to provide an indication of the financial performance and position of that company. Ratios may be expressed as a percentage (e.g. \*return on capital employed), in days (e.g. \*debtor collection period), or as a multiple (e.g. \*rate of turnover). See FINANCIAL-STATEMENT ANALYSIS; RATIO ANALYSIS.

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

**accounting reference date (ARD)** The date at the end of an **accounting reference period**, i.e. the financial year for a company, as notified to the \*Registrar of Companies. For companies incorporated after 1 April 1990, it is normally taken as the last day of the month in which the anniversary of incorporation falls. Companies wishing to change their ARD must notify Companies House in advance.

### Accounting Standards Board (ASB)

The recognized body for setting accounting standards in the UK. It was established in 1990 to replace the **Accounting Standards Committee (ASC)** following the recommendations contained in the \*Dearing Report. Under the Companies Act (1985), companies (except \*small companies and \*medium-sized companies) must state whether their accounts have been prepared in accordance with the relevant accounting standards and give details and

a

reasons for any material departures from those standards. The ASB issues Financial Reporting Exposure Drafts (FREDs), \*Financial Reporting Standards (FRS), and through its offshoot, the Urgent Issues Task Force, reports known as Abstracts. The ASB is a subsidiary of the \*Financial Reporting Council.

**accounting technician** A person qualified by membership of an appropriate body (such as the \*Association of Accounting Technicians) to undertake tasks in the accountancy field without being a fully qualified \*accountant.

**account management group** **1.** A group within an advertising, marketing, or public-relations agency responsible for planning, supervising, and coordinating all the work done on behalf of a client. In large agencies handling large accounts the group might consist of an account director, account manager, account or media planner, and \*account executive. **2.** A group in the sales department of an organization that is responsible for managing the relationship with existing clients.

**account of profits** A legal remedy available as an alternative to \*damages in certain circumstances, especially in breach of \*copyright cases. The person whose copyright has been breached sues the person who breached it for a sum of money equal to the gain made as a result of the breach.

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

**account reconciliation** **1.** A procedure for confirming that the balance in a chequebook matches the corresponding \*bank statement. This is normally done by preparing a \*bank reconciliation state-

ment. **2.** A procedure for confirming the reliability of a company's \*accounting records by regularly comparing balances of transactions. An account reconciliation may be prepared on a daily, monthly, or annual basis.

**account rendered** An unpaid balance appearing in a \*statement of account, details of which have been given in a previous statement.

**accounts** **1.** The \*profit and loss account, \*balance sheet, and \*cash-flow statements of a company. See ANNUAL ACCOUNTS. **2.** See ACCOUNT; BOOKS OF ACCOUNT.

**account sale** A statement giving details of a sale made on behalf of another person or firm, often as an \*agent. The account sale shows the proceeds of the sale less any agreed expenses, commission, etc.

### Accounts Modernization Directive

An EU directive (2003) that requires companies to publish information that provides a "balanced and comprehensive" analysis of their development and performance during the financial year. This should include not only key financial performance indicators but also, where appropriate, non-financial indicators, including information relating to environmental and employee matters. The directive, which is binding on publicly listed companies for financial years beginning on or after 1 January 2005, has necessitated changes to the UK regulations on the \*directors' report and the \*operating and financial review.

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

**accounts receivable (trade debtors)** The amounts owing to a business from customers for invoiced amounts. Accounts receivable are classed as \*current assets on the balance sheet, but distinguished from prepayments and other non-trade debtors. A \*provision for bad debts is often shown against the accounts receivable balance in line with the \*prudence

concept. This provision is based on the company's past history of bad debts and its current expectations. A general provision is often based on a percentage of the total credit sales, for example 2% of credit sales made during the period.

**accrual (accrued charge; accrued expense; accrued liability)** An estimate in the accounts of a business of a liability that is not supported by an invoice or a request for payment at the time the accounts are prepared. An accrual is a \*current liability on the \*balance sheet and will be charged under expenses in the \*profit and loss account. Expenses are accrued as set out in the \*accruals concept outlined in Statement of Standard Accounting Practice 2. An example of an accrual would be telephone expenses, which are billed in arrears. At the end of the accounting period, if no bill has been received, an estimate (based on past bills) would be made and credited to an accruals account; the corresponding debit would be made to the telephone expense account. The telephone expense account is then cleared to the profit and loss account.

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

**accruals concept** One of the four fundamental \*accounting concepts laid down in \*Statement of Standard Accounting Practice (SSAP) 2, Disclosure of Accounting Policies; it is also recognized in the Companies Act (1985) and the EU's \*Fourth Accounting Directive. It requires that revenue and costs are recognized as they are earned or incurred, not as money is received or paid. Income and expenses

should be matched with one another, as far as their relationship can be established or justifiably assumed, and dealt with in the \*profit and loss account of the period to which they relate. \*Accruals and \*prepayments are examples of the application of the accruals concept in practice. For example, if a rates bill for both a current and future period is paid, that part relating to the future period is carried forward as a current asset (a prepayment) until it can be matched to the future periods.

The importance of the accruals concept was reaffirmed in \*Financial Reporting Standard 18, which has now superseded SSAP 2.

**accrued benefits** Benefits due under a \*defined-benefit pension scheme in respect of service up to a given time. Accrued benefits may be calculated in relation to current earnings or protected final earnings. \*Statement of Standard Accounting Practice 24 and \*Financial Reporting Standard 17, Retirement Benefits, contain regulations on accounting for pension costs in financial accounts. From January 2005 listed companies have to comply with \*International Accounting Standard 19, Employee Benefits.

**accrued benefits method** An actuarial method used in accounting for pension costs in which the actuarial value of liabilities relates at a given date to:

- the benefits, including future increases promised by the rules, for the current and deferred pensioners and their dependants;
- the benefits that the members assumed to be in service on the given date will receive for service up to that date only.

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

**accrued charge** See ACCRUAL.

**accrued income scheme** An arrangement that applies in the UK when the owner of interest-bearing securities disposes of them. The interest accrued be-

a

tween the date of the last interest payment and the date of disposal is regarded, for tax purposes, as the income of the transferor. The transferee is able to deduct this sum from taxable income. The scheme does not apply to non-residents or if the transfer is part of a trade. Exemption also applies to individuals (husband and wife being regarded as one) if the total nominal value of the securities held does not exceed a certain amount.

**accumulated depreciation (aggregate depreciation)** The total amount of the \*depreciation written off the cost price or valuation of a \*fixed asset since it was brought into the balance sheet of an organization.

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

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

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

**accumulation trust** See DISCRETIONARY TRUST.

**accumulation unit** A unit in a \*unit trust or an \*investment trust in which dividends are ploughed back into the trust, after deducting income tax, enabling the value of the unit to increase. It is usually linked to a life-assurance policy.

**achievement motivation theory** A

theory that establishes a relationship between personal characteristics, social background, and achievement. A person with a strong need for achievement tends to exhibit such characteristics as:

- regarding the task as more important than any relationship;
  - having a preference for tasks over which they have control and responsibility;
  - needing to identify closely, and be identified closely, with the successful outcomes of their actions;
  - seeking tasks that are sufficiently difficult to be challenging, to be capable of demonstrating expertise, and to gain recognition from others, while also being sufficiently easy to be capable of achievement;
  - avoiding the likelihood and consequences of failure;
  - requiring feedback on achievements to ensure that success is recognized;
  - needing opportunities for promotion.
- The need for achievement is based on a combination of \*intrinsic motivation (drives from within the individual) and \*extrinsic motivation (pressures and expectations exerted by an organization, peers, and society). Achievement is also clearly influenced by education, social awareness, cultural background, and values. See MOTIVATION.

**acid-test ratio** See LIQUID RATIO.

**ACII** Abbreviation for Associate of the \*Chartered Insurance Institute.

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

**ACMA** Abbreviation for Associate of the Chartered Institute of Management Accountants. See ACCOUNTANT; MANAGEMENT ACCOUNTING.

**ACORN** Acronym for A Classification of Residential Neighbourhoods. This directory classifies 56 different types of neighbourhoods in the UK, assuming that people living in a particular neighbourhood will have similar behaviour patterns, disposable incomes, etc. It is used by companies to provide target areas for selling particular products or services (e.g. swimming pools, double glazing, etc.) or alternatively to exclude areas (particularly