Eitan A. Avneyon

DICTIONARY OF FINANCE

财务辞典[英]

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PREFACE

This dictionary comprises entries covering a wide range of topics concerning every aspect of finance and investment: economics, accounting, trading procedures in the securities and commodities market, banking, private and public financing, consumer and tax legislation, as well as management, marketing, insurance, statistics and other related fields. Many of the subjects dealt with are in the process of continual significant change. The changes relate both to the subjects themselves (for example, the development of trading in options and in indexes; amendments to income tax legislation) and to the means that businessmen employ (computerization and new technology). An effort has been made to include and define new terminology — to the extent that it has lasting relevance and is not mere ephemeral jargon — alongside the updating of traditional concepts.

The entries are, on the whole, self-contained, and the definitions concise, clear and understandable. Some however, require additional information and this is provided by cross-references, indicated in small capital letters when first mentioned. When an entry has more than one meaning in different contexts or in different fields, the definitions are numbered, and usually given in order of importance.

Cross-references are also provided when an entry covers several alternative terms. Usually all the terms appear in the heading, the most accepted one first and in bold type. In addition, some key-terms are printed in italics in the text to emphasize their importance.

A simple letter-by-letter alphabetical order has been used: where a term consists of more than one word, it is treated as a single unit.

The scope of this Dictionary makes it useful to a wide circle of businessmen, professionals and students who will find in it not only an abundance of material relating to their own occupation, but also to topics in other fields which they encounter in the course of their work. The numerous examples and the graphs included in the book are designed to present the subjects more comprehensibly and to give concrete meaning to abstract matters.

To Ya,acov Farkas — better known as ZE,EV — I am grateful for the portraits of famous economists.

I am indebted to PROF. NAHUM BIGER Associate Professor of Finance, Haifa University, and DR SIMCHA SADAN of the Faculty of Management, Tel Aviv University, for their valuable comments on large sections of the book which have without doubt led to its improvement. Any mistakes or omissions are my sole responsibility.

E.A.A.

Tel Aviv, October 1987

A

ABA Abbreviation for AMERICAN BANKERS ASSOCIATION.

abandonment

1. The giving up of property, or of a right, voluntarily, by waiving irrevocably all rights to that property or to a specific right (such as in a registered trade mark). Usually, the property is made available to the first person to take it over, who becomes its owner. However, there are cases in which owners abandon the property or right to a specified person, like in the case of insured property to the insurer, for example.

2. In insurance, most policies prohibit the abandonment of the insured property in the event of damage to that property. It is more common in the case of ocean MARINE INSURANCE in which a damaged ship or cargo may be abandoned to the benefit of the insurers.

3. In accounting, the retirement of a FIXED ASSET when all that is left of it its scrap value.

abatement

1. Deduction, reduction or decrease.

2. In taxation the term refers to a reduction of a tax assessment for special reasons such as the rebate of customs duties on imported goods received in a defective state due to damage caused during transportation or while being stored in a warehouse, rebates on property tax, etc.

3. Reduction or rebate on payments, owed or paid, by someone; or the full, or partial, cancellation of actual or anticipated expenditure.

4. In law, the complete suppression of the cause for a legal action, such as a nuisance, while leaving the option to sue for a different cause based on the same set of facts.

5. In accounting, any casual income which is calculated as a deduction from the total cost.

ability to pay

1. In taxation, a principle which states that when one imposes a tax one must take into account the relative economic ability of the taxpayer to pay the tax imposed so that the rich will pay more than the poor. This is the principle upon which the system of PROGRESSIVE TAXES is constructed, such as *income tax* or wealth tax which is prevalent in many countries. This is contrary to the *benefit received principle* which states that taxes should be imposed on those using the means or services for which the tax is paid.

2. In business, a situation in which a firm has sufficient LIQUID FUNDS or other sources to meet its liabilities upon redemption date.

ab initio A Latin term which means "from the beginning". In law, it represents the status of a situation or transaction which takes effect from the beginning, whether due to its own nature or because of conditions created later on. In this case, the situation or transaction lacks ab initio validity; it ceases to exist as if it had never existed; this is a situation of VOID AB INITIO.

abnormal costs

1. An unusual cost which is unexpected and not regular.

2. The difference between ANTICIPATED COST under ordinary conditions and costs actually incurred.

above par Above face value. Payment of a premium. In securities, stocks or bonds sold at PREMIUM or AGIO, or above their listed or nominal price. In bonds this could occur, for example, if the long term interest rates decline relative to the interest rate at which the bond was issued. An opposite situation will lead to BELOW PAR prices.

above the line In accounting, ordinary expenditures and revenue in statements such as profits and loss statements, and income statements, where the line indicates NET PROFITS, or net revenue. Net income is calculated on the basis of current income against which regular expenditures are debited. These are the items which appear above the line. Conversely, EXTRAORDINARY EXPENSES are debited against RETAINED EARNINGS, not against current income, because they are unconventional items. These are referred to as *below the line*. The management is frequently inclined to record many expenses below the line in order to improve what is customarily seen as profit, and also because PROFIT PER SHARE is calculated on the basis of income excluding below the line expenses.

abrasion of coins Loss of weight of a coin due to its use, i.e., due to natural wear and tear. According to the GRESHAM LAW an abraded coin has a circulation velocity which is greater than that of a new coin. In gold coins this characteristic turns the coin into a *light gold* coin, unless the shortage in the weight of gold in the coin was caused by an error made during minting.

absolute advantage An economic term relating to conditions under which a firm or country can produce or sell a product at lower cost than others. This can stem from the availability of natural resources or other favorable conditions. It serves as an approximate way of comparing efficiency, even though it is not sufficient to determine whether specialization in that sphere would be profitable. According to the theory of comparative costs, even when a country has an absolute advantage in production costs, the world economy will derive greater benefit if each country specializes in the production of those products in which it has the greatest comparative advantage in costs, or at least the smallest disadvantage. Consequently, the measure for deciding about specialization and maximization of profits from trade is COMPARATIVE ADVANTAGE. Generally, neither absolute advantage nor comparative advantage are static and the relative state of these advantages among various countries may change in the course of time.

absolute liability Or, *strict liability*. A legal term which emphasizes the liability of a person who has performed a certain deed or misdeed, irrespective of whether the consequence resulted from fault, negligence or absence thereof. In case of absolute liability the claimant does not have to prove negligence or fault, only the actual result — the damage. There are those who distinguish between absolute liability and strict liability, and relate the first to such cases as road accidents in which the person causing the accident cannot reduce his liability due to contributory negligence etc., while strict liability applies when the liability of the producer of a faulty product for example is reduced if damage is caused because the product was not used in accordance with its instructions.

absolute priority rule A principle according to which creditors have priority and must be paid in full before anything is paid to equity stockholders following LIQUIDATION or REORGANIZATION of a corporation.

absolute sale A sale which is considered complete from the moment a formal agreement has been made with regard to it, without any accompanying conditions or limitations.

Conversely, a conditional sale is a sale which will turn into an absolute sale only after certain conditions are fulfilled or events have occurred.

absorb

1. To merge by transferring amounts, fully or partially, to other accounts, in order to cause the former to lose their identity.

2. To include actual costs which are interconnected in determining the STANDARD COST.

3. To distribute costs by means of allocation.

absorbed cost

1. A cost above ordinary cost which is absorbed by the seller or paid by the buyer, e.g., delivery costs.

2. Overhead expenses and other indirect costs allocated to products or services.

absorption

1. In business it is the result of the amalgamation of a small business and a large business, as a result of which the small business is integrated into the structure of the larger one.

2. See FREIGHT ABSORPTION.

absorption account See ADJUNCT ACCOUNT.

absorption costing A costing method in which all production costs, whether fixed or variable, are allocated in the calculation of the costs of the goods or services produced, for various goods at various stages such as goods that have been sold, goods in stock, and goods in process. The allocation can be of the full costs by a method called FULL ABSORPTION COSTING, or partially by means of DIRECT COSTING or STANDARD COSTING. The reverse method is VARIABLE COSTING or DIRECT COSTING.

abstinence A term referring to the deferral of the use of money, of a product or a service until some future date. Since the assumption is that people usually prefer present consumption over future consumption, it is necessary to offer compensation for postponing the use of money, in the form of interest paid by those who were enabled to advance consumption as a result of the abstinence of those possessing the money.

abstract

1. A summary, or headings, or substance of an essay, long paper, accounts or document, usually in writing.

2. The characterization of a thing outside its location or time framework, as well as a quality which is considered to be unrelated to the object or event in which it is found.

abstract of title A basic concise document which refers to ownership of real estate. A notarized declaration or copy, or the summary of any recorded document which affects ownership over a particular plot of land. The abstract includes the interests of any LEGAL ENTITY in that real est liens, or any other claim relating to it, as wel description of the property, the owner's name address. In the U.S. an abstract of title can ! obtained from the Public Records.

accelerated depreciation A DEPRECIATION method in which the periodic depreciation during the first years of the expected life of depreciable assets (such as buildings, equipment) is higher than in the following years. The result is that the book value of the asset will disappear faster than if the asset loses rising proportions of its value throughout its physical existence, as is the case with STRAIGHT LINE DEPRECIATION. The logic behind this method is that the economic life of an asset is shorter than its physical life, and therefore it loses its value faster in the first years of its existence; or due to increased use of certain assets which causes greater than usual wear and tear in the beginning. The accelerated depreciation method is recognized by the income tax authorities in many countries, and it provides most of American industry with a TAX SHIELD. The method gives a more rapid cost return and thus provides incentives for economic growth. The calculation of accelerated depreciation reduces taxable income in the first years but raises it later on. It provides a deferral of part of the income tax payments. The usual methods for accelerated depreciation are: the DECLINING BALANCE METHOD and the SUM OF THE YEARS DIGITS method.

acceleration clause A clause in loan agreements for INSTALLMENT PAYMENTS, MORTGAGES, etc. which lays down that if one of the payments is in default and is not paid on schedule, or if some deed or misdeed mentioned in the agreement is performed, the balance of the debt, which has not yet been repaid by that date, will be liable to immediate and complete repayment.

accelerator effect Or, *accelerated principle.* A theory proposed by Lord Keynes to explain the connection between consumption and investment in the form of a formula of geometric expansion or contraction. According to this theory high consumption demand, which producers are unable to satisfy, is liable to lead to a multiplication of investment in capital equipment, and expansion of enterprises. According to this theory the flow of money from consumers to producers, from these to suppliers; and from the latter to workers creates an economic acceleration.

…eone who has been …fully or partially, with …nting it. Such consent …oral or written, depending on the nature of the offer. Usually the consent is accompanied by a written action such as the signing of a contract, taking out an insurance policy, or some other form of record.

2. In banking, acceptance relates to DRAFTS, BILLS OF EXCHANGE, BANKER'S ACCEPTANCE, TRADE ACCEPTANCE, etc. For example, the acceptance of a bill of exchange by a bank means that the bank endorses it and thus guarantees that its payment will be made when the time comes, whether by the purchaser or the bank (See: ACCEPTANCE BANK). The acceptance is an approval given on the bill by the drawee to indicate that it will be redeemed when it is due. At the time of acceptance the date and place of payment are indicated. Whoever accepts the bill is called an *acceptor.*

3. Legally, the other side of an offer, such as a bid or tender. Such an acceptance must be absolute and unconditional, and when this is granted the deal becomes firm and creates an obligation between the parties.

acceptance bank Or, *accepting house* (Br.). A commercial bank or other financial institution which specializes in accepting or guaranteeing domestic and foreign BILLS OF EXCHANGE. It accepts bills of exchange from firms wishing to discount the bills. A bill which is accepted by the bank has its backing and its ENDORSEMENT of the bill makes it marketable on the DISCOUNT MARKET. Consequently, the bill's discount rate is relatively low.

acceptance number

1. A commercial term which indicates the maximum number of defects permissible in merchandise without the buyer having the right to refuse to accept it.

2. In quality control it is the acceptable quality level, or the permissible deviation from a certain standard.

acceptance of goods An explicit or implicit consent by a buyer to receive goods offered him. It becomes valid when the buyer informs the seller that he accepts the goods, or when after their receipt he treats them in a way which implies taking title over them.

acceptance of liability The liability which stems from the obligation undertaken by a bank when it accepts a NEGOTIABLE INSTRUMENT or a LET-

TER OF CREDIT drawn on it by a customer or beneficiaries. The bank is required by law to keep records of the total amount of liabilities undertaken in a special account.

accepted principles of accounting See: GENERALLY ACCEPTED ACCOUNTING PRINCIPLES.

acceptor See: ACCEPTANCE.

accommodation

1. A loan free of interest or collateral, or any other consideration, given by a person or an institution. In business, the granting of a temporary loan until the borrower arranges a formal loan.

2. In insurance, the undertaking of borderline risk by the insurer, not on the basis of professional underwriting considerations which would justify undertaking the risk but on the basis of personal considerations of the agent or as a means for obtaining other policies which the insurer wants.

accommodation endorsement See: ACCOMMODATION PARTY.

accommodation paper Also *accommodation bill, accommodation note.* A document, note, bill of exchange, etc., signed by an ACCOMMODATION PARTY, jointly with the person benefitting from the document.

The accommodation party, even though he does not derive any benefit, guarantees the loan or debt. In the event of default he is responsible for payment. The process strengthens or establishes the credit worthiness of the borrower.

accommodation party Or, *accommodation endorsement.*

1. An individual or body, who endorses an accommodation paper, or some other debt instrument, designed to establish or strengthen the credit of another party, without receiving any consideration. The endorsement is a sort of guarantee, and it creates a situation of joint liability.

2. The endorsement of one bank's ACCEPTANCE by another for a fee, with the intention of making it acceptable for purchase by an acceptable bank.

accommodation purchase The purchase of a product or service by a person who has certain advantages in purchasing for someone else. For instance, the purchase of an enterprise for its workers, or certain clients, while taking advantage of an apparatus at his disposal, to obtain the assets at a discount.

account

1. A trade record or certificate which indicates an amount which one party owes another for goods, services, etc.

2. A trade relation between a business organization and a client, such as the balance of a client who borrows or deposits money in a bank or with a stockbroker; or anyone who purchases goods from a supplier on a regular basis and is granted credit.

3. In accounting, the recording dates and amounts of transactions performed by a certain organization which are recorded in monetary debits and credits (even though they could also be recorded in money-equivalent values) which shows the current balance. Thus, an account is a record in which changes in certain assets, liabilities or capital are entered following the execution of some transactions.

4. In business the term also serves to indicate a specific client or customer, especially in insurance, advertising, brokerage firms, etc. The person dealing with such clients or customers is called an ACCOUNT EXECUTIVE.

accountability

1. The responsibility of someone to someone else to perform a task properly. For example, the liability of directors to the stockholders of a firm as laid down by law, agreement or custom.

2. Assets, obligations or other items held in trust by an individual, firm, corporation or any other legal entity for which the holder must give an account of details affecting the trusteeship. For example: an employee of a financial institution who receives funds and legal documents as a trustee in order to use them as agreed is under an obligation to account for them as stated.

3. An account which a subordinate must give his superior in any organization, or an agent to his principal, which includes a report of the steps taken by him within the framework of the authority delegated to him.

account activity In accounting and banking, the sum of all the transactions performed in a certain account, or group of accounts, which includes various entries such as debit, credit, the charging of a service fee, interest, etc., over a certain period of time.

account agent Or, *accredited agent*; or, *credit agent.*

An agent who mediates between a manufacturer or a provider of services (such as an insurer), and a client, on a non-regular basis. He receives remuneration in the form of a COMMISSION for each transaction he completes.

accountant general See COMPTROLLER GENERAL.

account balance The net difference between debits and credits in the statement of an account. It may relate to a client's account in the bank, securities or insurance broker's brokerage account, to a ledger etc. A balance may be positive or negative. If the sum of credits exceeds the sum of debits the result is a credit balance. If the sum of debits exceeds the sum of credits the result is a debit balance.

account day Or, *settlement day.* The day on which stock or commodity dealers must settle their accounts. An account day is the end of an account period, which is the time span in which dealers must settle their mutual accounts. This period differs in length from one exchange to another. In the New York Stock Exchange, for example, a dealer must settle the account within five days. In the London Exchange there are usually two account days each month. They are also termed pay days.

account executive An employee in a firm, such as a firm of brokers or dealers, a reinsurance company or an advertising agency, who is responsible for serving one or several clients of that firm. There are branches, such as in securities, in which an account executive must have a license in accordance with the Securities and Exchange Commission's regulations and the laws of the state in which he operates. In the securities industry the term customer's broker is used.

account in balance Or, *closed account.* An account of any sort in which all the debits and all the credits are equal.

accounting Or, *accountancy* (Br.).

1. Reporting, classifying, summing up and interpreting the financial transactions of a firm. This includes a formal statement of the current situation of a firm, or other body, during a certain period and at the end of the period, of financial transactions which were carried out in that period, and of the state of its ASSETS and LIABILITIES.

2. The accounting theory and practice, its responsibility, standards and activity. The theory changes as a result of different economic conditions. A recent change is the shift from HISTORICAL ACCOUNTING to accounting which takes inflation into account.

accounting cycle

1. A term which refers to the process of the business activity of a firm in which cash is converted into raw materials, then into finished goods and finally into sales, resulting in the receipt of accounts receivable which are converted back into cash — a process which is also termed operating cycle.

2. A series of accounting activities which occur in a firm from the beginning of one accounting period to its end. The beginning and end of an accounting cycle are accompanied by the firm's financial statements.

accounting period

1. Any period with regards to which the audit of a firm and its examination is usually performed. The period covers the opening of the accounts until their closure, for the purpose of summing up the period. The accounting period usually covers the same time span and can be one month, one quarter, one year, or any other fixed period.

2. With regards to income tax, an accounting period is a twelve month period in which the account books of the tax payer are kept.

accounting principles See: GENERALLY ACCEPTED ACCOUNTING PRINCIPLES.

accounting rate of return Or, *adjusted rate of return.* A method for determining the yield of investment, under which the RATE OF RETURN is determined by using the ACCRUAL BASIS method to determine the yield on the investment. According to this method the calculation is done with regard to total revenue compared to total investments in a given period. The AVERAGE ANNUAL YIELD is divided by the average investment in that period. The result is the accounting rate of return. This method does not take into account the TIME VALUE OF MONEY and therefore its use is usually limited.

accounting standards Or, *auditing standards.*

The technical rules of evaluation, measurement and disclosure customary among auditors for the performance of an audit. These standards are laid down by the professional organization of the accountants, the law or custom, and they may differ from country to country. Their crystallization also takes place on the basis of interpretation given them in courts of law, precedents, etc.

In the U.S. accounting standards are part of the ACCEPTED PRINCIPLES OF ACCOUNTING which must be complied with in accordance with the requirements of the Securities and Exchange Commission with regard to companies registered in the stock exchange. The Audit Standards also include ethical rules of conduct. The various standards together constitute Generally Accepted Auditing Standards (GAAS)

accounting transactions See: INTERNAL TRANSACTIONS.

accounting valuation A process of determining the money value of ASSETS. Since in accounting there is no room for the valuation of subjective benefit, a valuation is based on exchange values or conversions.

Generally this valuation is based on input values and therefore it provides the historical value of every asset or expenditure usually reported as a cost, or the amount spent at the time of purchasing. The various methods and types of cost are the main subject of accounting and constitute the basis for an accounting valuation of an asset.

This cost can be HISTORICAL COST, CURRENT COST or any other basis for cost effected when the costing is determined. The valuation can also be determined on the basis of output values, reflecting the amount the firm anticipates to receive upon the sale of its products.

account in trust An account opened in the name of an individual or a corporation, where the money or securities in it are held for the benefit of someone else, such as a minor, an incompetent person, etc. Withdrawals from such an account are subject to approval and compliance with the conditions laid down by the person who opened the account. Such an account opened for a minor, on the basis of a legal order, is called a custodian account and the trustee must comply with the instructions of the law and courts.

account number Or, *code of accounts.* A number, or code, which identifies the account of a firm, e.g., checking accounts, which enables the identification of the type of client, the type of account or some other classification, in accordance with the accounting method and the requirements of that firm. In a bank, for example, each client has an identifying number attached to all his accounts. Sometimes he may have several account numbers.

accounts payable Or, *payables.* A term in bookkeeping which refers to the current financial liabilities which a business or a person owes others for merchandise or services received, and which appear in the debtor books. Accounts payable do not include liabilities such as bonds and other debt instruments. They are payable within one year or less.

accounts payable ratio See: DAY'S PURCHASES TO PAYABLES RATIO.

accounts receivable Or, *receivables.* A term used in bookkeeping that refers to accounts which represent sums owed by clients of a business, and are payable in less than one year. These amounts represent credit extended to customers. Accounts receivable are valued according to their total sum less BAD DEBTS RESERVE.

accounts receivable aging schedule See: AGING SCHEDULE.

accounts receivable discounted See: ACCOUNTS RECEIVABLE FINANCING.

accounts receivable financing A means for financing the credit a firm extends to its customers. This financing can be effected in various ways: through the issue of discounting receivables with SALES FINANCING COMPANIES, by using receivables as collateral to obtain credit in a bank, etc. Sometimes, accounts receivable discounted constitute a CONTINGENT LIABILITY if these discounts have been made with a RIGHT OF RECOURSE until they have been paid by the debtor. They will be entered as such in the balance sheet. In this case the credit risk falls on the firm and not on the discounters.

accounts receivable turnover Or, *collection ratio.* A financial ratio intended to reflect the credit risk of a firm and the LIQUIDITY of debts. The ratio measures the connection between sales on credit during a particular accounting period and the average of ACCOUNTS RECEIVABLE which must be collected in that period, e.g., the number of times that accounts receivable were accumulated and collected over a certain period of time. The ratio is obtained by dividing net annual sales by total accounts receivable outstanding at the end of the year, or by its annual average. A high ratio indicates a rapid collection of debts and vice versa.

accounts sales Or, *sales account.* An account in which details are given on goods sold. This can be an interim or a final statement which a consignee or sales agent presents. It includes details on the sale of goods in CONSIGNMENT, the expenses incurred, commissions due to the consignee and the balance due to the consignor.

account stated An account prepared by a creditor, the balance of which has been verified by the debtor as correct, whether explicitly or implicitly, e.g., where an auditor of a firm sends balance verification letters requesting reaction only if the balance is deemed incorrect or unacceptable to the client. If the debtor does not react, the account is viewed as verified.

An account stated has legal significance since it prevents a client from disputing the account if he has not taken the trouble to react to it within a reasonable period.

accredited agent See: ACCOUNT AGENT.

accretion

1. Growth, multiplication or expansion for whatever cause. In business it means the increasing of the economic value of an asset, usually due to natural causes (such as the growth of trees). The definition does not include write up, which is the accretion of an asset over its balance sheet value, which does not stem from the addition of costs which led to its improvement or from the adjustment to its assessed value — but to a real accretion of the asset.

2. An addition to income or principal resulting from a planned accumulation. For example the accumulated accretion in a pension fund due to paid up contributions, or to income from the accumulated principle.

3. The accretion of value, calculated periodically for accounting purposes, in order to adjust the value of securities purchased at a discount to the relative addition related to that period, so that at the time of redemption the purchasing price will be equal to the face value.

accretion account An account in which the increase in value resulting from the difference between the purchase price and face value of bonds which were purchased below the latter value, or at discount is registered. In accordance with the ACCRUAL BASIS method of accounting the discount is earned during the period between the purchase and the maturity, and it is added to income from interest.

accrual

1. A process of growing or accumulating, or that which accrues.

2. Acknowledgement of events or conditions at the time they occur, such as income or expenditure, rather than at the time when they are received or paid.

3. A continuous or periodic change, in the amount of some account — or a specific item in it — which changes by means of a process of accretion and activity in the account.

accrual basis Or, *accrual convention*; *accrual system.* A method in accounting for calculating the profits of a company, partnership or private business, whereby income and expenditure are identified with a specific accounting period. Consequently income is recorded the moment one is credited for it and transactions are recorded, whether received in cash or on credit. The same applies to expenditures which are entered as soon as a liability is created, even if the actual payment will take place in a different accounting period. This method differs from the CASH BASIS method in which income and expenditures are entered in the books only when they are actually received or paid. The accrual basis is also known as the *matching principle*, that is, the matching of revenue and expenditures belonging to a period, not according to the dates of receipt or payment in cash. In order to do this the firm makes adjusting entries.

accrual interest Pro rata accrued interest on a debt instrument to the benefit of the holder, since the day of the last interest payment. Settling accounts regarding accrued interest is done, for example, with regard to bonds which accumulate interest every day, but interest is only paid by the issuer of the bond on the date set in the bond. The purchaser of a bond usually pays the seller the bond's current market price and, in addition, the accrued interest since the last date interest was actually paid by the issuer of the bond.

Accrued interest payable is the interest which has accumulated on a debt or loan which has not yet been paid to those entitled to it. *Accrued interest receivable* is the interest due to a firm for a debt which has not yet been collected.

accrue

1. To grow, add, collect or accumulate over a certain period.

2. In accounting, the term refers to an entry into some account — or to a specific item in it — of the accruals relating to that account or item therein.

3. To come into existence, to be vested, such as rights in an account, rights in a pension fund, or the right of a stockholder to an accrued dividend.

accrued In accounting, every item which is owed but not yet received, or which has to be paid but has not yet been paid.

accrued assets The sum of the interest, commission and services supplied to others, or other income items which have not yet been received and their due date has not yet arrived.

accrued dividend The usual and customary dividend which is supposed to be paid out, but for the payment of which a declaration has not yet been made, on legally issued stocks or other securities which bestow ownership rights in a company or business entity. In practice the stockholders do not have the right to a dividend as long as the board of directors has not declared it, and it is therefore not a DIVIDEND IN ARREARS.

accrued expense Or, *accrued liability.* A liability which covers an expense incurred before a certain date and which the firm recognizes, but will only pay at some future date. An expense incurred and recognized in one accounting period but which will only be paid in future accounting periods. Such an expense originates in the ACCRUAL BASIS accounting method, and results from the necessity to prepare financial statements at regular intervals. These create a current liability in the balance sheet. Conversely, payments made in one accounting period for goods or services that will be received during future accounting periods, they are referred to as PREPAID EXPENSES, and enter the balance sheet as current assets.

accrued income Or, *accrued revenue.* Income which has been earned but has not yet been received and the time of payment of which is not yet due, such as payment for a commission, interest on receivables. It is entered in one accounting period but will be received after that accounting period. This entry is made on an ACCRUAL BASIS.

accrued liability See: ACCRUED EXPENSE.

accrued revenue See: ACCRUED INCOME.

accumulated depreciation The sum of the DEPRECIATION on FIXED ASSETS which has accumulated until the reporting date. The net accounting value of these assets, allowing for the wear and tear and aging, equals their original purchase value less accumulated depreciation. This is a counter account to set-off fixed assets. The annual depreciation is deducted from the firm's income. The sum of the said depreciation which has accumulated in a depreciation account, accumulates in the balance sheet, and the balance sheet usually shows the cost, the accumulated depreciation and the BOOK VALUE balance of the depreciable assets, until these are completely depreciated.

An asset which has been totally depreciated can be of realizable value, whether because its value has been revaluated or because it has been sold at a price which is higher than the depreciated value. In this case a CAPITAL GAIN TAX will have to be paid for the difference.

accumulated distributions Net income, after the payment of tax, received in a TRUST ACCOUNT or by a trust for distribution to beneficiaries in some future accounting period.

accumulated dividend Or, *accumulative dividend.* A DIVIDEND which has not been paid to the stockholders when the time of its payment has arrived, and as such it is a debt of the company until it is paid. Such a dividend is thus called a dividend in arrears.

accumulated surplus Or, *accumulated earning; accumulated income; accumulated profits.* In accounting, the profits of a corporation which have been reinvested. With regard to non-profit organizations the term accumulated funds is sometimes used for any other business that has revenues and expenditures and therefore profit or loss could be generated, although accumulated funds are only a by-product, not a declared goal.

accumulation

1. A systematic purchasing of stock or other securities over a period of time in such a way that it does not draw the public's attention, in order to prevent the rise of their market price.

2. The absorption of an excess supply of stocks and other securities by increasing the demand for them, which has a positive effect on market prices.

3. In forecasting graphs and charts, a term indicating that purchases have been made.

4. In accounting, a periodic addition of interest, dividend or some other increment to a monetary fund, or a net profit increment to a profit surplus which has not been distributed as a dividend in the capital account. This act is contrary to AMORTIZATION.

5. In insurance, a percentage which is added to life insurance benefits as a reward for renewal or continuation.

accumulation plan See: PERIODIC PAYMENT PLAN.

accumulative dividend See: ACCUMULATED DIVIDEND.

acid test/quick ratio One of the liquidity RATIOS of a business entity that measure the ratio between its CURRENT ASSETS, excluding inventory and CURRENT LIABILITIES. Assets include cash and near money (such as accounts receivable and marketable securities). The ratio is supposed to reflect the firm's liquidity better than the current ratio, since it excludes inventory from the current assets, reflecting the notion that inventory might not be as liquid as other assets; and also because firms constantly renew inventory and view it, within certain limits, as a FIXED ASSET. This ratio serves creditors who examine the firm's ability to fulfill its commitments and to verify that it has sufficient WORKING CAPITAL to finance its current activities in the event of a temporary drop in sales.

Different industries maintain different quick ratios, and it is customary to examine the industry standard for the assessment of the firm. The ratio is also affected by the nature of the firm's current liabilities, since occasionally the renewal of some of its current liabilities is almost certain and thus may be viewed as long term liabilities.

acknowledgement

1. A formal document sent by a seller to a purchaser, or a bank to its clients, etc., which acknowledges receipt of an order or funds, informing them that they have been received.

2. A signature on a document which has been certified by an authorized person.

acquired surplus

1. The accumulated income of a business firm purchased by means of a TAKEOVER at the time the purchase was effected.

2. The surplus over investment cost received by a parent corporation or a holding company from a subsidiary before consolidation.

acquisition

1. The process of obtaining title, whether partial or full, or an established claim over something in order to gain a CONTROLLING INTEREST in it.

2. A thing which has been purchased in a manner as stated.

3. TAKEOVER of one company by another company

acquisition cost

1. Expenses incurred by a company in order to obtain business, or in order to purchase goods or services. These expenses include preparation and payment for the product or service, including delivery cost.

2. A sales charge which a person investing in a mutual fund must pay in order to invest in the fund. This cost is also referred to as LOAD OT FRONT END LOAD.

acquisition value The amount arrived at by valuation of a business entity on the basis of appraisal methods carried out from the vantage point of the buyer. There are various ways to assess the acquisition value of a firm. Some are based on an accounting method and others on economic principles. Usually, in order to assess the real value of a firm it is necessary to use more than one method and consider the weight the potential buyer places on various factors which determine the value. The weighted result of such an appraisal gives the acquisition value.

acquittance Or, *quittance.* A written document, usually given at the time of settlement of some financial claim which releases the other side of any financial or other liability.

across the board

1. A term which means that the figures quoted refer to everything uniformly, whether with regard to the past or the future. For example, in securities this is the state of nearly uniform activity of the securities market when the market is active across the board or slow across the board, at approximately the same time.

2. In insurance, the expression refers to an arrangement which an insurer has with his reinsurer, or with a broker, whereby he will receive all business uniformly, without selection.

3. In labor relations, the expression is used in salary agreements that apply to all employees of an enterprise.

action

1. The process of demanding some legal right by means of legal proceedings in court. The process is also referred to as legal action. In order that there be cause for action there must be circumstances which are deemed valid for such an action by a judging body, whether or not the action is successful. Frequently, however, the right of action exists only after other steps have been exhausted for settling differences of opinion, as in a case where there is a contract between parties which lays down that they must first turn to arbitration and only if one of the parties has failed to appoint an arbitrator as required can the other turn to a court of justice.

2. Legal proceedings in an action as stated.

3. In securities, the performance of a share in relation to trading volume and price trends. The same applies to anything else done and performed.

4. A share in a corporation.

active account

1. An account in which regular and frequent operations take place such as a CHECKING ACCOUNT, a BROKERAGE ACCOUNT for securities, etc.

2. In accounting, an account in which there is current activity.

3. An account in which there is some intensive activity. Such an account is also termed a high volume account

active balance of trade See: FAVORABLE BALANCE OF TRADE.

active market Or, *heavy market.*

1. A market in which there is lively trading, e.g., a stock exchange with a high daily turnover of securities. The term does not indicate the price trends in such a market but only the scope and turnover of the trade.

2. A market in which there is a substantial variety of stocks or other securities, which are frequently traded in it, where a potential buyer can be sure to find the quantity he wants.

activity

1. The work, or one of the fields of work, performed within an organization, or the complete work performed by any organization or individual.

2. In securities, the trade turnover in a given stock exchange of a stock or group of stocks, or of the whole trade, over a given period. The term does not indicate a large or small business turnover. An activity index measures the said activity, and serves as an indicator for the strength of the market trends. The choice of an activity depends on the size of the market. In certain stock markets, such as those of New York and Tokyo, an activity index with regard to each stock is computed daily. In other markets, such as London, an activity index is computed for the whole market only.

activity charge Or, *service charge.* In banking, a payment charged on a CHECKING ACCOUNT or a deposit — the average monthly total of which is moderate, to compensate the bank for servicing those accounts. There are many methods of imposing a service charge. Usually they are on a metered basis under which the charge increases with the extent of services required by the depositor. Another method is the credit method where a minimal sum is imposed as a general service charge, or a certain flat amount is charged for every check drawn.

activity index See: ACTIVITY.

activity ratios See: TURNOVER RATIOS.

act of God Or, *force majeure.* An event which causes loss of property as a result of unforeseeable natural causes which could not be prevented by reasonable means, such as a flood, lightning, an earthquake, a hurricane, etc. The term has been extended to cover also external causes which cannot be controlled and which prevent the fulfillment of an obligation, such as wars, strikes or judicial intervention. Some commercial contracts, including insurance policies, contain a clause exonorating the parties from having to pay indemnity in the event of damage or loss caused by force majeure.

actual authority Authority granted a person, whether explicitly or implicitly to act in the name of the principal. When the principal has led a third party to understand — by act or omission — that a person is authorized to act in his name, the courts will view it as an AGENCY BY ESTOPPEL, even if this was not the intention. For example, if an insurer has deposited with someone a blank policy and other forms, even if it was not his intention that this person should use them to issue insurance policies, the insurer is responsible for the policy that person may have issued in his name.

actual cost See: OUTLAY.

actuals

1. Commodities which can be purchased for immediate delivery in a commodity exchange.

2. In FUTURES MARKETS the term indicates the actual security, currency or deposit (officially termed a FINANCIAL INSTRUMENT), as opposed to the transaction in that security.

actual cash value

1. In insurance policies refers to the amount of the indemnity which the insured will receive for damage incurred. The definition differs from place to place and from policy to policy. The usual definition is the value of the property in financial terms, obtained by calculating the replacement value of the lost or damaged asset or property, less wear and tear, in order to appraise its actual cash value at the time the loss or damage occurred. When the valuation is done with regard to assets the actual cash value will be similar to their market value. Actual cash value is thus the value of the property as second-hand property, or its value when new, less depreciation, frequently called also *reproduction value*, or just *cash value*. According to another definition it is possible to add to the value additional factors which will influence actual cash value such as obsolesence, the environment, etc.

2. The value of a contract at the time of redemption.

actual value

1. The actual amount received for property when it is sold on the open market, or the amount received by a willing seller from a willing buyer.

2. The value of an asset or other property after