The MBA's Dictionary

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Preface

The *MBA's Dictionary* provides undergraduate business majors, graduate MBA students, and managers in business and government with definitions and discussions of all the terms, processes, persons, organizations, laws, and court cases needed for school or profession. It is, in effect, a mini-encyclopedia for managers and students of management.

Its core is the vocabulary of the courses required for BBA and MBA certification by the American Assembly of Collegiate Schools of Business. In addition, it provides diverse information for preparing term papers, studying for exams, understanding the management environment, and preparing reports in a professional setting.

Our goal has been to cover the following fields: accounting, applied behavioral science, business policy, computers, economics, finance, insurance, international trade, labor relations, law, management, management information systems, management science, marketing, organization theory and behavior, personnel and human resources management, production and operations management, public and nonprofit administration, real estate, and statistics. We have also attempted to cover the slang terms and informal processes that are often more important than textbook words.

The book is easy to use if you remember three simple rules. First, if the word you want may have an ordinary English meaning, try a general dictionary if you cannot find it here. Second, most words are cross-referenced under major headings, so if you cannot find your word in alphabetical order, try a more general word or try the other half if it is a compound word. And finally, all words in **boldface** have their own definitions, so you can look them up if you need them.

Whether you are a manager, businessperson, student or teacher, we think that you will find *The MBA's Dictionary* a valuable, perhaps constant, reference book. If you have any comments or suggestions for improvement, we would be glad to hear from you.

A

AAA 1. American Accounting Association. 2. **American Arbitration Association.**

AAAA American Association of Advertising Agencies.

AACSB **American Assembly of Collegiate Schools of Business.**

AAP Affirmative action plan (or program).

ABA 1. **American Bar Association.** 2. American Bankers Association.

ABC 1. ***ABC inventory control*** is a system that divides **inventory** into three dollar-volume classifications, A, B, and C, with A being those items with the greatest dollar volume (those that are "most active"). The inventory manager finds an item's annual dollar volume by multiplying its cost times the number used in a year. Grouping items by dollar volume enables a company to exercise extra control where it is needed most—over that part of its inventory that represents the greatest **investment.** 2. The ***ABC test*** states that an employee need not be covered by unemployment insurance if the employee is an independent worker who performs jobs free of the employer's control and away from the employer's place of business. 3. An ***ABC transfer*** was a complicated exchange of mining or oil rights meant to lower taxes. Current tax law eliminates the advantage of these transfers. 4. Audit Bureau of Circulation. It verifies newspaper and magazine circulation claims.

A/C **Account;** active account.

ACRS **Accelerated cost recovery system.**

ADP Automatic data processing. Usually by computer.

ADR 1. **Asset depreciation range.** 2. **American depository receipts.**

AFL-CIO **American Federation of Labor-Congress of Industrial Organizations.** The largest organization of labor unions in the United States.

AG Attorney general.

AICPA American Institute of Certified Public Accountants.

AID **Agency for International Development.**

AIDA A memory device for a **copy** writing formula: attention, interest, desire, action.

AIO Attitude, interest and opinion profile. It is used in **psychographics.**

AJOC April, July, October and January quarterly payments of **interest** or **dividends.**

ALJ **Administrative law judge.**

ALTA American Land Title Association.

AMA 1. **American Management Associations.** 2. American Marketing Association.

AMACOM See **American Management Associations.**

ANSI American National Standards Institute.

AOG Arrival of goods.

AOQL **Average Outgoing Quality Limit.**

APA **Administrative Procedure Act.**

APB Accounting Principles Board. See **generally accepted accounting principles.**

APICS **American Production and Inventory Control Society.**

APR **Annual percentage rate.**

APT **Automatically programmed tool system.**

AQL Acceptable (or acceptance) quality level. A percentage of failure rate.

ARM An **adjustable rate mortgage.**

ARQ Automatic request for repetition. An error detection mechanism.

ASAP As soon as possible.

ASCII American Standard Code for computer representation of letters, numbers, and "typewriter" symbols. A combination of eight computer **bits** can handle all 128 standard characters.

ASE **American Stock Exchange.**

ASPA 1. **American Society for Public Administration.** 2. **American Society for Personnel Administration.**

ASTD **American Society for Training and Development.**

ASTM American Society for Testing and Materials.

ATM **Automatic teller machine.**

AWOL Absent without official leave.

A fortiori (Latin) With stronger reason. An *a fortiori analysis* is a procedure for coping with uncertainty by handicapping a preferred alternative by resolving questions of uncertainty in favor of another alternative. If the initially preferred alternative remains acceptable, the case for favoring it has been strengthened. [pronounce: ah for-she-o-ri]

A posteriori (Latin) From the effect to the cause. A method of reasoning that starts with experiments or observations and attempts to discover general principles from them.

A priori From the cause to the effect. A method of reasoning that starts with general principles and attempts to discover what specific facts or real-life observations will follow from them. [pronounce: ah pri-o-ri]

Ab initio (Latin) From the very beginning; entirely and completely since the start. [pronounce: ab in-ish-i-o]

Abandonment 1. A complete and final giving up of property or rights with no intention of reclaiming them and to no particular person. For example, throwing away a book is *abandonment*, but selling or giving it away is not. And a lawsuit may be thrown out of court if it is *abandoned* by failure to take any action on it for too long a time. Abandonment of a **patent** right might occur if the inventor fails to apply for a patent or if too many other people are allowed to see the invention. 2. The practice of turning over damaged property to its insurer in order to claim its full insured value. 3. Eliminating a **fixed asset** from the books after its final retirement from service. 4. A consignee's refusal to accept a shipment because of damage. 5. ***Abandonment of position*** means quitting a job without formally resigning. ***Abandonment of service*** occurs if a public utility permanently cuts off a customer.

Abatement 1. Reduction or decrease. 2. Proportional reduction. For example, if a pot of money does not have enough to pay everyone it owes, each person may have to be satisfied with an *abatement* of his or her share. 3. Complete elimination. For example, an ***abatable nuisance*** is a **nuisance** that is easily or practically stopped or made harmless.

Abbroachment Buying up goods at wholesale to control the supply and then resell at much higher resale prices.

Abdication Giving up a public office by ceasing to perform its function rather than by formally resigning.

Abet Encourage, request, order, or help another person to commit a crime.

Abeyance In suspension, waiting, or held off for a while.

Abide Accept the consequences (usually of a court's **judgment**); be satisfied with; wait for; obey; for example, most persons *abide* by the law.

Ability to pay 1. A concept from **collective bargaining** referring to an employer's ability to tolerate the costs of requested **wage** and **benefit** increases. **Factfinders** and **arbitrators** frequently use the "ability to pay" concept in justifying their decisions. Also, in the case of *National Labor Relations Board v. Truitt Manufacturing (1956)*, the U.S. Supreme Court held that a refusal by an employer to attempt to substantiate a claim of inability to pay increased wages may support a finding of a failure to bargain in **good faith.** 2. The principle that as a person's income increases, that person should pay an increasing *proportion* of that income in taxes. **Progressive taxes** are based on this principle. See also **diminishing marginal utility** of income. 3. A standard that juries are rarely permitted to use in deciding how much money a **defendant** must pay a **plaintiff.**

Abode Home or dwelling place.

Abolish Completely do away with something previously thought to be permanent.

Abort The deliberate stopping of a program or activity prior to its logical conclusion.

About Near in time, distance, quantity, or quality. *About* is an imprecise word, but not so imprecise as to legally undo a deal based on a phrase like "about a million widgets" or "about May first."

Above 1. Higher. Usually refers to a higher or **appellate** court. 2. Before. *Above cited* or *above mentioned* may mean "appears earlier on this page," "earlier in this chapter," etc. 3. *Above par* means that the price of a **security** is greater than its face amount.

Abridge 1. Infringe upon. To *abridge* a right is to make the right less useful or complete. 2. Shorten or condense.

Abrogation 1. The destruction, ending, or **annulling** of a former law. 2. The formal cancellation of an agreement or a part of one.

Abscond Hide or sneak away to avoid arrest, a lawsuit, or creditors.

Absence An employee's short-term unavailability for work, lasting at least one day or **tour of duty.** An ***absence rate*** is calculated by the **Bureau of Labor Statistics** using the following formula:

$$\text{absence rate} = \frac{\text{work days lost (per month)}}{\text{days worked plus days lost}} \times 100$$

An ***absentee landlord*** is an owner or other **lessor** who does not live on the premises; usually one who cannot be reached by the tenants. 2. ***Absenteeism*** is unnecessary, unexcused or habitual **absence** from work. However, the **Bureau of Labor Statistics** includes "the failure of workers to appear on the job when they are scheduled to work. It is a broad term which is applied to time lost because sickness or accident prevents a worker from being on the job, as well as unauthorized time away from the job for other reasons. Workers who quit without notice are also counted as absentees until they are officially removed from the payroll."

Absolute 1. Complete, final, and without restrictions. 2. An ***absolute advantage*** is an international trade concept formulated by **Adam Smith** which holds that one nation has an *absolute advantage* over another when it can produce more of a product using the same amount of resources than the other can. See also **comparative advantage.** 3. An ***absolute deed*** is a transfer of land without a **mortgage** or other restrictions. 4. ***Absolute liability*** is responsibility for harm to another whether or not you are at fault. 5. An ***absolute nuisance*** is a **nuisance** that involves no **negligent**

conduct. 6. ***Absolute priority*** refers to the fact that **creditors** must be satisfied before **stockholders**. This concept is especially relevant during **liquidations** and **reorganizations.**

Absolution Freedom or release from an obligation or a debt.

Absorption 1. The continued life of a thing (a right, a company, etc.) by its becoming a part of another thing. For example, when one business **merges** with another, the continued right of **seniority** for employees is called *absorption*. 2. ***Absorption costing*** is the system of allocating business costs in which all costs, whether fixed or variable, **direct** or indirect, are *absorbed* by the goods produced within an **accounting period.** The cost of a product consists of the costs of production allocated between the goods sold during the period and those in the ending **inventory** on some more or less arbitrary basis.

Abstinence theory of interest. See agio.

Abstract 1. A summary. For example, an abstract of **title** is a condensed history of the ownership of a piece of land that includes transfers of ownership and any rights (such as liens) that persons other than the owner might have in the land. 2. ***Abstraction*** is taking something (usually money) with the intent to commit **fraud.**

Abuse Misuse. ***Abuse of discretion*** is the failure to use sound, reasonable judgment as a judge or as an administrator, and ***abuse of process*** is using the legal process unfairly; for example, prosecuting a person for writing a bad check simply to put on pressure to pay.

Abut Touch or border on with nothing in between.

Academy of Management A nonprofit organization, most of whose members are college teachers, that views itself as America's academic "voice" in U.S. management.

Accede 1. Come into a job or public office. 2. Agree, consent, or give in.

Accelerated cost recovery system An **accounting** method that uses a range of time, usually shorter than an **asset's** useful life, over which a business may take **depreciation** on the asset. The **IRS** specifies rules and percentages.

Acceleration 1. Shortening of the time before a future event will happen. An ***acceleration clause*** is a section of a contract that makes an entire debt come immediately due because of a failure to pay on time or because of some other failure. ***Acceleration of capital*** is the theory that business will not invest in production unless sales increase. And for ***accelerated depreciation,*** see **depreciation.** 2. ***Accelerating premium pay*** is a bonus **incentive** system in which pay rates rise as production **standards** are exceeded. For example, an employee who exceeds standard production by two percent may get a two percent **bonus**, while an employee who exceeds by five percent may get a ten percent bonus. 3. The ***accelerator principle***, also called the ***accelerator effect,*** is a business cycle theory which holds that an increase in **demand** for finished products tends to create a greater increase in demand for those things that are used to make the finished product.

Acceptance 1. Agreeing to an **offer** and becoming bound to the terms of a **contract**. 2. Taking something offered by another person with the intention of keeping it. For example, the **Uniform Commercial Code** explains several ways a buyer can *accept* goods from a seller: by telling the seller that the goods received are right; by saying that the goods will be taken despite problems; by failing to reject the goods in reasonable time; or by doing something that makes it seem like the buyer now owns the goods. 3. In **negotiable instruments** law, a person's *acceptance* of a check may be by signing and depositing it, and a bank can *accept* the check by cashing it. There are technical rules of acceptance for more complicated negotiable instruments. 4. A ***banker's acceptance*** is a trade device in which a bank promises to pay a certain amount at a future date (a negotiable time **draft** or a guaranteed **bill of exchange**). For example, a manufacturer in New York wishes to sell goods to a merchant in Texas on 90 days' time. The manufacturer will send the **bill of lading** to the Texas merchant's bank with a draft on the bank. The bank will accept the draft because it has assurance that the draft will be paid at **maturity**. This assurance rests either on the high credit standing of the Texas merchant or on the fact that the bank holds the bill of lading or some other document as **collateral**. The bank is liable to the drawer of the draft, but it looks, in turn, to the merchant for repayment. A draft accepted by the bank is a **banker's acceptance**. A ***trade acceptance*** is the same thing promised by a company instead of a bank. These are both called "*acceptance credit,*" are often used to finance international trade and are bought and sold as investments. And an ***acceptance house,*** also called an *acceptance bank,* specializes in lending money on the **security** of **bills of exchange** or **guarantees** bills **drawn** on another party. 5. ***Acceptance sampling*** is a statistical method for deciding whether to accept or reject an entire lot on the basis of the quality of a **sample**. One hundred percent inspection is usually too expensive and very often does not yield accurate information because of inspection fatigue and other types of errors. Many tests are destructive, so acceptance sampling is often the only practical means of inspection. Acceptance sampling procedures are most efficient when used on large lots of material; this technique presumes homogeneous lots of material received from the same source. And an ***acceptance trial*** is the testing of newly developed equipment by agents of a purchaser to determine if prespecified performance criteria have been met. 6. For the ***acceptance theory of authority,*** see **zone of acceptance.**

Access 1. Opportunity to approach. For example, most city lots have *access* to the street. 2. Right to approach. For example, *access* to public records includes both their practical availability and the right to see them. 3. ***Access time*** is the time required for information to be inserted into or taken from the storage section of a **computer**. A computer with a relatively slow access time of 10 microseconds can make information transfers at the rate of 100,000 per second.

Accession 1. The right to own things that become a part of something already owned. For example, if land builds up on a riverbank, the bank's owner will also own the new land by *accession*. 2. The right to things, such as crops, produced on owned property. 3. See **accede.** 4. Any acquisition. 5. Any addition, such as an addition to an organization's **workforce**. The ***accession rate,*** also called *hiring rate*, is the number of employees added to a **payroll** during a given time period, usually expressed as a percentage of total **employment**. The accession rate is a significant indicator of economic health. Accession rates can be computed using the following formula:

$$\text{accession rate} = \frac{\text{total accessions} \times 100}{\text{total number of workers}}$$

Accident An ***accident frequency rate*** is the total number of disabling injuries per million hours worked as computed by the **Bureau of Labor Statis-**

tics. ***Accident-proneness*** is a concept that implies that certain kinds of personalities are more likely to have accidents than others. However, psychological research supports the claim that accident-proneness is more related to situational than personality factors. An ***accident severity rate*** is generally computed as the number of work days lost because of accidents per thousand hours worked. An ***accidental death benefit*** is a feature found in some **life insurance** policies that provides for payment of additional amounts to the **beneficiary** if the **insured person** dies as a result of an accident. When such provisions allow for an accidental death **benefit** that is twice the normal value of the **policy**, they are known as "double-**indemnity**" provisions.

Accommodation A favor done for another person, usually involving **co-signing** to help another person get a loan or credit. An ***accommodation line*** is business that is accepted not on its own merits but to get other business or as part of a "package." ***Accommodation paper*** is a **bill** or **note** that is signed on by one person as a favor to help another person get a loan. The person signing promises to pay if the person getting the loan fails to pay. An ***accommodation party*** is a person who signs an **accommodation paper** as a favor to another person. ***Accommodation personnel*** are **dummy incorporators.**

Accord 1. An agreement to pay (on one side) and to accept (on the other side) less than all a debt or obligation is worth as full payment for that obligation. For example, there is an **accord** if a person agrees to take one hundred dollars as payment in full for one hundred and fifty dollars worth of damages to an auto, and the person who did the damage agrees to pay the one hundred dollars. 2. An ***accord and satisfaction*** is an accord that has been completed by payment and a full **release.** 3. Any agreement.

Account 1. Any self-contained financial record-keeping system for one particular subject or type of transaction. The most common form it takes is a chronological record of changes in a **ledger.** An account total is increased or decreased by **posting debits** or **credits.** The difference between total debits and credits is the **balance** of the account. An ***account in balance*** is one in which the debits equal the credits. 2. A list of money paid and owed by one person or business to another. ***Account activities*** are transactions on accounts such as debits, credits, holds, etc. ***Account analysis*** is the process of reviewing an account in order to ascertain and explain profit or loss. An ***account day,*** also called *settlement day,* is the day designated by stock and commodity exchanges for the settlement of accounts between members. An ***account payable*** is a regular business debt not yet paid. An ***account receivable*** is a regular business debt not yet collected; for example, a store's charge accounts. An ***account stated*** is an exact figure for money owed, calculated by the person to whom the money is owed, and accepted as accurate by the person who owes the money. In law, the account stated operates as an admission of liability from the person against whom the balance appears and as a promise to pay. The debtor cannot question the accuracy of the computation of the account stated if it is retained beyond a reasonable time without objection. 3. A client or customer. An ***account executive*** is a service industry term for those employees who have direct responsibility for a client's interests. An account executive in advertising is the **agency** employee responsible for managing the campaign of a client. Sales agents for securities dealers also call themselves account executives. See **registered representative.**

Accountability The extent to which one is responsible to higher **authority**—legal or organizational—for one's actions in society at large or within one's particular organizational **position.**

Accountant A person who specializes in the accuracy of financial records. This includes setting up financial record keeping systems, filling them in, and checking up on them. These duties include **auditing, bookkeeping,** and preparing financial **statements.** Normally, persons who do just bookkeeping do not have accounting skills. The next level of skill is accountant. Some accountants are specially trained and certified as *certified public accountants* by satisfying state professional requirements.

Accountant's report 1. A written statement, also called an *accountant's certificate, accountant's opinion,* or *audit report,* prepared by an independent **accountant** or **auditor** after an **audit.** It is addressed to the owners, directors or stockholders of the audited enterprise. The auditor states briefly the nature and the scope of the examination and expresses a professional opinion as to the fairness of the appended **financial statement** in presenting the firm's financial position and operating results for the specified period. The opinion may be unqualified, or it may contain exceptions, qualifications, or other comment regarding the treatment of particular items, the limitations of the auditing procedures followed, and changes of accounting methods from those used in previous years. 2. The term *accountant's report* occasionally is used to refer to a separate report made by the public accountants who have performed an audit of the company's books. The report, often called a *management letter,* contains suggestions or recommendations for the company to improve its systems, controls, cash handling, record keeping, and the like. These matters are not of sufficient importance to require a qualification in the certificate of a public accountant.

Accounting 1. The process of analyzing business transactions and recording them in the books of account to show the results of business operations. *Accounting* includes the design, installation, and operation of the accounting system, the analysis of financial statements, budgeting methods, and the procedures for internal control. See also **cost accounting.** 2. The term *accounting* is sometimes limited to systems for setting up financial record books, especially for tax purposes. Two of the most common methods are the *accrual method* (recording debts owed to and by a company when the debt becomes a legal obligation, which may be before the money is actually paid) and the *cash method* (recording debts when paid). 3. The rendering or delivering of a formal statement by a person who is under a legal duty to account for property or money of another. Thus, accountings are made by **executors, agents, guardians,** etc. *Accounting* may also mean actually making good on money owed. For example, a court may order one partner to pay another. This is called an *accounting for profits.* 4. An ***accounting change*** is, generally, a change in an accounting principle (such as using a different method of determining **depreciation**), a change in an accounting estimate (inflation was greater or less than expected), a change in accounting period, or a change in the reporting entity. The correcting of errors in earlier financial **statements** is not considered an accounting change. ***Accounting control*** is a set of procedures that monitors the receipt and disbursement of funds and the recording of business transactions. It is an essential element in the control of cost and operations and includes the use of **control accounts**, or their equivalent, that can be used to verify the accuracy of groups of subsidiary **accounts**. Accounting control should also provide financial data for reports required by management. See also **internal control**. The ***accounting cycle*** is the sum of the accounting procedures from the records made in the books of original entry to **posting** to **ledger** accounts, making closing entries, making adjusting journal entries, and taking a trial balance. These parts of the cycle are directed toward the preparation of an income **statement** and a **balance sheet** at the close of the **accounting period**. The *accounting cycle* also refers to the time required to convert cash into merchandise inventory, to **accounts receivable** and back to cash again. It is usually one year but may be longer, depending upon the product involved. Where the inventory takes more than one year to sell (for example, wine which ages three or more years) the *accounting cycle* will run for that period of time. An ***accounting identity*** is a statement that two numerical things are equal by accepted definition; for example, **assets** equal **liabilities** plus stockholder's **equity**. ***Accounting methods*** are the specific procedures that follow from *accounting principles*. ***Accounting models*** are simulations of financial situations. An ***accounting period*** is the length of time for which a financial or operating report is prepared. It can range from weekly to yearly. See also **fiscal**. ***Accounting policy*** consists of the **accounting** methods selected by management from the available alternatives. For example, management may decide not to **capitalize research and development** costs but to regard them as operating expenses. *Accounting policy* may also refer to the standard operating procedures that a business uses to maintain its accounts. ***Accounting principles*** are the basic premises that govern most **accounting** theory and practice. Accounting principles are validated by general acceptance within the accounting community; they are not immutable in the sense of scientific laws. They arise from common experiences, historical precedents and formulations of professional bodies and governmental agencies. They change over the years as new techniques, business practices and laws evolve. See also **Generally Accepted Accounting Principles**. ***Accounting rate of return*** is the same as **unadjusted rate of return**. An ***accounting system*** is the total structure of records and **procedures** that record, classify, and report information on the financial position and operations of an organization.

Accounts payable Money owed, usually to suppliers. A company groups its records of this money in one account called *accounts payable*.

Accounts receivable Money owed, usually by customers. A company groups its records of this money into one account called *accounts receivable* or *receivables*.

Accounts receivable financing 1. Using a company's **accounts receivable** as **collateral** for loans under a continuing arrangement. This usually involves higher financing costs than regular bank loans. Such financing is carried out through a formal agreement called the *underlying agreement* or *working plan*, which specifies what percentage of the value of pledged accounts receivable will be advanced by the lender (usually from 75 per cent to 85 per cent) and sets the over-all conditions by which each assignment will operate. Assignment of accounts receivable is made from time to time as the borrower needs funds. At such times, the borrower prepares a **schedule** of the **assigned** accounts and **executes** a **demand note** in the amount of the loan. The assignee (lender) usually stamps the assigned accounts in the company's accounts receivable **ledger**, indicating that the account has been assigned. Some states require this bookmarking to validate the assignment. 2. Selling accounts receivable outright. This is called **factoring.**

Accreditation The process by which an **agency** or organization evaluates and recognizes a program of study or an institution as meeting certain predetermined **standards.**

Accretion Any gradual accumulation; for example, the growth of a bank account due to continuing deposits or the interest earned, the extension of land boundaries due to the deposit of dirt by a river, the growth of trees on land, etc.

Accrual basis A method of **accounting** that shows expenses **incurred** (see also **all events test**) and income earned in a given time period, whether or not cash payments have actually changed hands during that period. Also, investments in **fixed assets** are often divided up by the time periods benefiting from these assets. This is done by **depreciation** accounting. One advantage of *accrual basis* accounting is that it helps in making comparisons between business activity of two periods. Only where all relevant expenses have been applied against the income of the period, is it possible to obtain an accurate picture of the profit or loss. One disadvantage is the possibility that some portion of a company's **accounts receivable** may never be realized as cash. See also **cash basis.**

Accruals Regular, short-term business obligations, such as employees' wages.

Accrue 1. Become due and payable but not yet paid. For example, in tax law, income *accrues* to a taxpayer when the taxpayer has an unconditional right to it and a likelihood of being able to receive it. 2. An ***accrued dividend*** is a share of a company's earnings that has been formally declared as payable to the stockholders, but not yet paid. ***Accrued assets or income*** is money earned, but not yet collected, and ***accrued liabilities or expenses*** are those owing, but not yet paid. In **accounting**, these are all earned or owing in the current *accounting period*, but may not actually be paid until a later one.

Accumulated (or accrued) depreciation That part of an asset's cost that is estimated to have been consumed in production. It is charged to operations.

Accumulated earnings tax A federal tax on **corporations** that pile up profits without either distributing them to stockholders in the form of **dividends** or plowing the money back into the business.

Accumulated retained earnings See **retained earnings.**

Accumulator A temporary storage device in the arithmetical section of a **computer** in which sums, products and similar types of information are formed. The accumulator is also used for comparisons of data.

Achievement test A test designed to measure an individual's level of proficiency in a specific subject or task. A collection of achievement tests designed to measure levels of skill or knowledge in a variety of areas is an *achievement battery.*

Acid test See *quick ratio* under **quick assets.**

Acknowledgment 1. An admission or declaration that something is genuine. 2. The act of signing a formal paper and swearing to it as your act before a court official such as a **notary public.**

Acoustic coupler A device that hooks a telephone handset into a computer to allow computer communication over phone lines using a **modem.**

Acquiescence Silent agreement; knowing about an action or occurrence and remaining quietly satisfied about it or, by silence, appearing to be satisfied.

Acquisition The taking over of one company by another, or the company that has been taken over. An ***acquisition charge*** is a charge for paying off a loan before it comes due. It is also called a *prepayment penalty*. An ***acquisition cost*** is the immediate cost of selling, **underwriting**, and issuing a new **insurance policy**, including clerical costs, agents' commissions, advertising, and medical inspection fees. *Acquisition cost* also refers to the cost paid by a retailer to a manufacturer or wholesaler for a supply of goods.

Acquittal 1. A formal legal determination that a person who has been charged with a crime is innocent. 2. A **release** from an obligation.

Acquittance A written **discharge** of an obligation. For example, a **receipt** is an *acquittance* of an obligation to pay money owed.

Across-the-board increase An increase in wages, whether expressed in dollars or percentage of salary, given to an entire **workforce**.

Act 1. A law passed by one or both **houses** of a **legislature**, such as Congress. 2. Something done voluntarily that triggers legal consequences. 3. An ***act of bankruptcy*** is any one of several actions (such as hiding property from creditors) that used to make a person **liable** to be proceeded against as a **bankrupt** by **creditors**. **Bankruptcy** law now provides for this sort of *involuntary bankruptcy* only when a person cannot pay debts as they come due. An ***act of God*** is an event caused entirely by nature alone. The ***act of state doctrine*** is the rule that a court in the United States should not question the legality of acts done by a foreign government in its own country.

Acting Holding a temporary rank or position. Filling in for someone else.

Action 1. A formal legal demand. *Actionable* means that an act has provided the legal grounds for a lawsuit. 2. The French term for a share of stock. 3. The trading volume and price trends of a **security**. 4. ***Action planning*** is the **planning** phase in which **production** preplanning is tried and tested. 5. ***Action research***, in its broadest context, is the application of the scientific method to practical problems. As the basic model underlying **organization development**, action research is the process of collecting data about an ongoing organizational system to feed it back into the system, then alter a variable within the organizational system in response to this data or to test a hypothesis, and evaluate the results by collecting more data. Repeat the process as needed.

Active An ***active account*** is one which has frequent transactions. ***Active assets*** are assets in productive use. ***Active capital*** is **capital** in productive use. ***Active listening*** is a counseling technique in which the counselor listens to both the facts and the feelings of the speaker. Such listening is "active" because the counselor has the specific responsibilities of showing interest, of not passing judgment, and of helping the speaker to work out problems. An ***active market*** means that there is a large volume of transactions on an exchange. ***Active money*** is circulating currency. An ***active partner*** is a member of a firm who is fully engaged in its business. ***Active securities*** are stocks and bonds that are traded every day. An ***active trust*** is a **trust** for which the trustee must actually perform some service.

Activity charge A checking account fee.

Activity ratios Measures of how well a firm manages its resources. Also known as *operating efficiency ratios.* See **average collection period, capital turnover ratio, capital turnover ratio, cash turnover ratio, fixed asset turnover, inventory turnover, ratio analysis, receivables turnover,** and **total assets turnover.**

Actual Real, substantial, and presently existing as opposed to possible or theoretical. ***Actual authority,*** in the law of **agency,** is the right and power to act that a **principal** (often an employer) intentionally gives to an **agent** (often an employee) or at least allows the agent to believe has been given. This includes both express and **implied** authority. ***Actual cash value*** is the fair, usual, or reasonable cash price that something will bring on the open market; the same as **fair market value.** ***Actual cost,*** in a **cost accounting** system, is the true cost, with all cost factors correctly evaluated and attributed to the proper source. Actual costs rarely appear in accounting records except in one-product companies, where all the costs must be attributed to one product. Actual costs are determined after the fact, when all accounts have been settled. ***Actual investment*** is the spending on capital goods that occurs during a given year, as opposed to spending that was planned. ***Actuals*** are real **commodities** as opposed to their **futures.**

Actuarial method The way of accounting for finances in a record book. For example, the *actuarial method* described in the Uniform Consumer Credit Code is a company's method of applying payments made by a consumer first to **interest** and finance charges, then to paying off **principal** (the basic debt).

Actuarial projections Mathematical calculations involving the rate of mortality for a given group of people.

Actuary A person who specializes in the mathematics of **insurance;** for example, the possibility of a person dying by a certain age, the money that should be paid for a certain type of insurance, etc.

Ad hoc (Latin) "For this"; for this special purpose; for this one time; for example, an *ad hoc* committee is a temporary one set up to do a specific job. An ***ad hoc arbitrator*** is an **arbitrator** selected by the persons involved to serve on one case. Nothing prevents the arbitrator from being used again if both sides agree. *Ad hoc* or temporary, single-case **arbitration** is distinguished from "permanent" arbitration where arbitrators are named in an **agreement** to help resolve disputes that may arise during the life of the agreement. ***Ad-hocracy*** is Alvin Toffler's term, in *Future Shock* (1970), for "the fast-moving, information-rich, kinetic organization of the future, filled with transient cells and extremely mobile individuals."

Ad valorem (Latin) According to value. For example, an *ad valorem* tax is a tax on the value of an item, rather than a fixed tax on the type of item. An *ad valorem* tax might tax a ten-dollar hat fifty cents and a twenty-dollar hat one dollar, while a specific hat tax might tax all hats seventy-five cents regardless of price or value. An ***ad valorem tariff*** is a **tariff** calculated as a percentage of the value of goods clearing customs.

Adaptive control system Any device that automatically adjusts itself to its environment in order to maintain a specified level of performance.

Add-on More goods bought before old goods are paid for; often, the contract for the original goods is rewritten to include the new things. An ***add-on clause*** is a provision in an **installment** contract that combines payment obligations for previously bought and newly bought things so that nothing is owned "free and clear" until everything has been paid for. Several states have enacted laws to protect retail customers against the injustice of this practice. These laws provide that items originally purchased are **security** for the new debt only until the original **balance** is paid. They also provide how the payments under the new contract shall be **prorated** to the old and new purchases.

Address The identifying name or symbol that locates the place where information is stored in a computerized data system.

Adhesion "Stuck to." For example, a ***contract of adhesion*** is one in which all the bargaining power (and all the contract terms) are unfairly on one side. This often occurs when buyers have no choice among sellers of a particular item, and when the seller uses a pre-printed form contract.

Adjacent Near or close by. Perhaps touching, but not necessarily so. ***Adjacencies*** are radio or television commercials that either precede or follow each other.

Adjective law Procedural law. The rules by which courts and agencies operate as opposed to what is usually thought of as "the law" or **substantive law**.

Adjoining owners Persons whose land touches a particular piece of land and who may have special rights against it under local **zoning** laws and under general laws of property.

Adjudicated form A **form** may be called *adjudicated* if a court has called it legally binding or has interpreted it in a way that makes it useful for later users.

Adjudication The formal giving, pronouncing, or recording of a **judgment** for one side or the other in a lawsuit.

Adjudicative facts Facts about the persons who have a dispute before an **administrative agency**. These are the "who, what, where, etc." facts that are similar to the facts that would go to a jury in a court trial. They are different from **legislative facts**.

Adjunct account An account that receives additions such as interest from another account.

Adjust ***Adjusted basis*** is the worth of property for tax purposes after subtracting for **depreciation** and adding in **capital** improvements. ***Adjusted cases***, according to the **National Labor Relations Board**, are cases closed as "adjusted" when an informal settlement **agreement** is executed and compliance with its terms is secured. A central element in an "adjusted" case is the agreement of the parties to settle differences without recourse to litigation. ***Adjusted gross income*** is a technical federal income tax phrase that means, in general, the money a person makes minus deductions such as certain travel, work, business, or moving expenses, etc. For most persons, it is the same as "gross" or total income. The phrase is used for personal taxes, not for business taxes. An ***adjusted trial balance*** is the **trial balance** taken right after adjusting **entries** are posted. An ***adjuster*** is a person who either determines or settles the amount of a claim or debt. For example, an *insurance adjuster* acts for an insurance company to determine and settle claims. ***Adjustment assistance*** is financial and technical assistance to firms, workers, and communities to help them adjust to rising import competition. While the benefits of increased trade to the importing country generally exceed the costs of adjustments, the benefits are widely shared while the adjustment costs are sometimes narrowly concentrated on a few domestic producers and communities. Both import restraints and adjustment assistance are designed to reduce these hardships. But adjustment assistance, unlike import restraints, allows the economy to enjoy the full benefits of trade expansion. Adjustment assistance is designed to facilitate structural shifts of resources from less productive to more productive industries, contributing further to improved standards of living. Under U.S. law qualified workers adversely affected by increased import competition can receive special **unemployment compensation,** retraining to develop new skills, and job search and relocation assistance; affected firms can receive technical assistance and loan guarantees to finance their modernization or shift to other product lines, and communities threatened by expanding imports can receive loans and other assistance to attract new industry or to enable existing plants to move into more competitive fields. For ***adjustment bond,*** see **bond.** ***Adjustment entries*** are an accounting device used at the close of a **fiscal** period to record income and expenses in the proper period and make the profit and loss **statement** show the correct income. It involves accounting for **deferred, accrued,** and prepaid income and expenses as well as for **bad debts** and **depreciation.** *Adjustment entries* are also made to correct errors discovered when the books of account are **audited.** They are also called ***adjusting journal entries. Adjustment securities*** are stocks, etc. that are issued during a **corporate reorganization.** The "adjustments" are usually changes that make the new stock worth less than the stock it replaced.

Adjustable rate mortgage A mortgage which can vary in any of its terms during the life of the mortgage as agreed on in the mortgage contract. With an adjustable rate mortgage, also called a *flexible rate loan*, the starting rate, or "initial interest rate," will be lower than the rate offered on a standard fixed rate mortgage. This is because the long-term risk is higher—the rate can increase with the market—so the lender offers an inducement to take this plan. Changes in the interest rate are usually governed by a financial **index.** If the index rises, so may your interest rate. In some plans, if the index falls, so may your rate. Examples of these indexes are the Federal Home Loan Bank Board's national average mortgage rate and the U.S. Treasury bill rate. Generally, the more sensitive the index is to market changes, the more frequently your rate can increase or decrease. If the interest rate is tied to the Bank Board index, the mortgage limits rate changes to one per year, although it doesn't limit the amount of the change. For example, assume your starting interest rate is 14% on September 1, 1983. Based on these terms, if the Bank Board index rises 2 percentage points by September 1, 1984, the new rate for the next year will be 16%. To build predictability into the flexible rate loan, some lenders include provisions for "caps" that limit the amount of interest that may be changed. A *periodic cap* limits the amount the rate can increase at any one time. An *aggregate cap* limits the amount the rate can increase over the entire life of the loan. Many flexible rate mortgages offer the possibility of rates that may go down as well as up. One variation of the flexible rate mortgage is to fix the interest rate for a period of time—3 to 5 years for example—with the understanding that the interest rate will then be *renegotiated*. Loans with periodically renegotiated rates are also called *rollover mortgages*. Such loans make monthly payments more predictable because the interest rate is fixed for a longer time. See also **fixed rate mortgage; renegotiable rate mortgage; rollover mortgage, variable rate mortgage** and **zero rate mortgage.**