Business Glossary

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A

Account payee only

words often written on crossed cheques, which direct the bank to pay the cheque only to the bank account of the payee.

Accounts payable

is money you owe to suppliers and other business creditors as a result of purchases of stock and other expenses such as overheads and taxes within one year or business cycle. Analysts look at the relationship of accounts payable to purchases for indications of sound day-to-day financial management.

Accounts receivable

a record of what is owed to you. All of the credit "accounts" - the record of what each customer owes you - taken together are your "accounts receivable" payable within one year or business cycle. Accounts receivables are a key factor in analyzing a company's LIQUIDITY-its ability to meet current obligations without additional revenues.

Accounts receivable financing

short-term financing whereby accounts receivable serve as collateral for working capital advances.

Accounts receivable insurance

is insurance that protects accounts receivable of a client owing money from physical loss because of fire, theft or any other named peril.

Accrual basis

is an accounting method whereby income and expense items are recognized as they are earned or incurred, even though they may not have been received or actually paid in cash. Accrual accounting provides an accurate picture of a company's performance but cannot assist in monitoring cash flow. The alternative is CASH BASIS accounting

Accrued

describing earnings, sales, expenses, or other items of income or outlay that have been made or incurred but not yet received or paid. An accrued dividend is that part of a dividend earned since the last regular dividend payment but not yet paid out; similarly, accrued interest is the interest earned on a bond since the last regular payment. Accrued income is income earned during a particular accounting period but not actually received during that period (sales commissions, interest, rent, etc.); and accrued liability is one that has been incurred but not yet paid (wages, taxes, interest, etc.).

Accrual method of accounting

used for most corporate financial statements. Revenues are counted during the time they're earned, and expenses are counted during the time they're incurred.

Accrued Interest

the interest that has accumulated since the last interest payment up to but not including, the settlement date and that is added to the contract price of a bond transaction.

Acquisition

one company taking over controlling interest in another company. Investors are always looking out for companies that are likely to be acquired, because those who want to acquire such companies are often willing to pay more than the market price for the shares they need to complete the acquisition.

In relation to the GST, acquisitions include the things you buy (goods, services and anything else) for your business. They also include many other transactions, such as obtaining advice or information, taking out a lease of business premises or hiring business equipment.

Actuary

a mathematician whose work is mainly concerned with insurance and finance.

Ad valorem

according to value. Applied to customs duty, it means a percentage charge on the value, rather than the weight or quantity of goods.

Affidavit

a declaration in writing on oath, made before a person legally qualified for the purpose.

Affiliates

business concerns, organizations or individuals that control each other or that are controlled by a third part. Control may include shared management or ownership, facilities, equipment and employees.

Allowance for bad debt

the amount of debt a company expects not to collect. This is subtracted from what the company is owed for goods it sold on credit (accounts receivable), so the balance sheet better reflects the company's true economic health.

Amortization

accounting procedure that gradually reduces the cost value of a limited life or intangible asset through periodic charges to income. For fixed assets the terms used is DEPRECIATION, and for wasting assets (natural resources) it is depletion, both terms meaning essentially the same thing as amortization. Most companies follow the conservative practice of writing off, through amortization, INTANGIBLE ASSETS such as goodwill. It is also common practice to amortize any premium over par value paid in the purchase of preferred stock or bond investments. The purpose of amortization is to reflect resale or redemption value.

Amortization also refers to the reduction of debt by regular payments of interest and principal sufficient to pay off a loan by maturity. Discount and expense on funded debt are amortized by making applicable charges to income in accordance with a predetermined schedule. While this is normally done systematically, charges to profit and loss are permissible at any time in any amount of the remaining discount and expense. Such accounting is detailed in a company's annual report

Analysis

taking an idea or project and breaking it down into parts to examine best solutions or rational and reasons for situations.

Appreciation

the increase in value of an asset.

Arbitration

is one method of settling disputes, including union-employer battles. The parties choose a third party to settle their disagreement. This is called binding arbitration when the parties also agree to abide by the arbitrator's decision.

Annualize

to convert to an annual basis. For example, if a mutual fund earns 1% in a month, it would earn 12% on an annualized basis, by multiplying the monthly return by 12. Many economists annualize a monthly number such as auto sales or housing starts to make it easier to compare to prior years.

Asset

anything having commercial or exchange value such as securities, deposits, or property owned by a business, institution, or individual. Assets held in RRSPs include cash, fixed income, and equities. In accounting, any physical property or right that is owned and has a money value. Accountants view an asset as a source of wealth, usually expressed in terms of its cost, capable of giving its owner future benefits. A tangible asset is physical property, such as cash, land, buildings, machinery, claims on property (money owed to a company), investments, goods in process, or prepaid expenses (such as rent, taxes, insurance). An intangible asset consists of such nonmaterial benefits as goodwill, franchises, patents, trademarks, or copyrights. Most businesses distinguish between two kinds of tangible asset: current assets, which can readily be turned into money (cash on hand, notes and accounts receivable, inventories, marketable securities), and fixed assets which cannot easily be turned into money without disrupting business operations (plant, land, equipment, long-term investments.).

Asset financing

is financing that seeks to convert particular assets into working cash in exchange for a security interest in those assets. The term is replacing commercial financing as major banks join companies that do not fit the traditional seasonal borrower profile. Although the prevalent form of asset financing continues to be loans against accounts receivable, inventory loans are common and second mortgage loans, predicated as they usually are on market values containing a high inflation factor, seem to gain popularity by the day.

Assumptions

the act of assuming/undertaking another's debts or obligations.

Automatic Teller Machine (ATM)

the machines that let you do your banking without dealing with a person. At ATMs, you can take cash from your account, make deposits and move money between accounts. All you need is a password you key in, and an access card.

Auction

a public sale of goods to the highest bidder.

Audit

a detailed checking of the financial records of a business by an independent auditor in order to verify their correctness.

Audited financial statement

a financial statement prepared in accordance with accounting and auditing standards laid down by the Canadian Institute of Chartered Accountants. Management of a company is responsible for preparing the financial statement. The auditors are responsible for testing the amounts and disclosures and assessing accounting principles used and significant estimates made by management. The auditors' report concludes whether, in their opinion, the financial statements present fairly, in all material respects, the balance sheet and the results for the year. The standard audit report has only three paragraphs. If there is an additional paragraph, the reason for the variation must be fully undertook. It will almost certainly be queried by any financial institution. The "Notes" to the statement must also be studied carefully, particularly any referred to in the audit report. Important issues, such as concerns of the viability of the corporation on a "going concern" basis, may only be referred to in the "Notes." An audit report attached to financial statements gives much weight and credibility when dealing with outsiders such as bankers and investors or when a company is up for sale.

Authorized capital

the total number of shares that a company can sell, a figure that is based on the amount of money required and the percent of dilution its owners are prepared to accept. Of these, the shares sold to the public are called issued capital.

Authorized stock

the number of shares that a corporation is permitted to issue.

B

Backlog

the value of unfilled orders placed with a manufacturing company. Whether the firm's backlog is rising or falling is a clue to its future sales and earnings. The total of a business' unfilled orders at any one time.

Backorder

also, known as open order. An order accepted by a supplier and marked for future delivery, usually because the item is temporarily out of stock.

Balance of sale

Portion of the selling price taken back by the seller of a company in a note, debenture, or mortgage.

Bad Debts

money owed to you that you can’t collect.

Balance

the amount of money remaining in an account.

Balance of trade

an accounting of a country’s exports versus imports.

Balance sheet

a reporting of a company’s financial health at a given time. It lists assets on one side and liabilities and equities on the other.

Bank draft

a written instruction to a bank’s agent to pay a sum of money to the person specified on the draft.

Bank line

the Bank's moral commitment, as opposed to its contractual commitment, to make loans to a particular borrower up to a specified maximum during a specified period, usually one year. Interest is charged only on the amount withdrawn. Because a bank line-also called a line of credit- is not a legal commitment, it is not customary to charge a commitment fee, although a standby fee is charged. It is common, however, to require that compensating balances be kept on deposit-typically 10% of the line, with an additional 10% of any borrowings under the line. A line about which a customer is officially notified is called an advised line or confirmed line. A line that is an internal policy guide about which the customer is not informed is termed a guidance line.

Bank rate

minimum rate at which the Bank of Canada makes short-term advances to the chartered banks, other members of the Canadian Payments Association, and investment dealers who are money market "jobbers." Since 1980, the bank rate has been set at 1.4 of 1% (25 basis points) above the weekly average tender rate of 91-day Government of Canada Treasury bills.

Bank statement

periodic statement of a customer's account detailing credits and debits posted to the account during the period and the book balance as of the statement cutoff date.

Bankrupt

legal status of an individual or company that is unable to pay its creditors and whose assets are therefore administered for its creditors by a Trustee in Bankruptcy.

Bankruptcy

the legal proceeding whereby the affairs of persons or businesses unable to meet their obligations are turned over to a receiver or trustee, in accordance with the Bankruptcy Act. Bankruptcy is either voluntary or involuntary, depending on whether it is the debtor or the creditors who file a petition of bankruptcy. For voluntary bankruptcy, any insolvent individual or business may file a petition. In the case of involuntary bankruptcy, the creditors must show that the debtor has committed an act of bankruptcy.

Bank reconciliation

a comparison between the bank’s record of transactions and the record of the firm’s cash book. After taking into account such items as unpresented cheques and bank charges etc., the two records should have identical balances.

Barriers to entry

the conditions that create difficulty for competitors to enter the market. For example, high initial investments, distribution channels, trademarks, etc.

Best and Final Offer

for negotiated procurement, a contractor's final offer following the conclusion of discussions.

Bill of lading

a document issued by a carrier to a shipper, upon acceptance of goods for shipment, that represents both a receipt for the goods and a contract stating the terms of carriage.

Bill of material

in manufacturing, an itemized list of the components for each product, including the name, part number, and usage (amount required) of each component.

Bill of sale

a document under seal, which formally transfers ownership of property specified in the document from the borrower to the lender, until such time as the debt has been paid in full.

Billing

the submission of invoices for goods or services.

Binding arbitration

better really mean it when you use this method of solving a dispute. Warring partiesClike a union and employerCagree to argue their cases before a neutral party and accept the outsider's decision.

Blanket order

also known as a standing order. A purchase order for the long-term requirements of a particular item-usually one year's worth-to be shipped " released." When stocks of such items run low, the buyer asks the supplier for shipment of another part of the outstanding blanket order. Blanket orders on small, regularly used items save paper work, time, and inventory costs, and often result in a price reduction (because the supplier knows a certain quantity will be sold over the year).

Board of Directors

a group of people chosen by stockholders to watch over a company and its executives, and to set overall corporate policy. Their job is to try to keep the company healthy and ensure stockholders get a good return on their money.

Bona Fide

in good faith, honestly, without fraud, collusion or participation in wrong doing.

Bond

a written promise to repay a loan plus interest, usually more than one year after the bond is issued. Investors buy bonds from a company or government entity, essentially loaning the company or government that money.

Bonus

any compensation to employees over and above the regular wage or salary.

Book value

1.Value at which an asset is carried on a balance sheet. For example, a piece of manufacturing equipment is put on the books at its cost when purchased. Its value is then reduced each year as depreciation is charged to income. Thus, its book value at any time is its cost minus accumulated depreciation. However, the primary purpose of accounting for depreciation is to enable a company to recover its cost, not replace the asset or reflect its declining usefulness. Book value may therefore vary significantly from other objectively determined values, most notably MARKET VALUE. 2. Net asset value of a company's securities, calculated by using the following formula: Total assets minus intangible assets (goodwill, patents, etc.) minus current liabilities minus any long-term liabilities and equity issues that have a prior claim (subtracting them here has the effect of treating them as paid) equals total net assets available for payment of the issue under consideration. The total net asset figure, divided by the number of bonds, shares of preferred stock, or shares of common stock, gives the net asset value- or book value- per bond or per share of preferred or common stock. Book value can be a guide in selecting underpriced stocks and is an indication of the ultimate value of securities in liquidation. See also ASSET COVERAGE. 1. In accounting, the amount an asset or group of assets is said to be worth in the books of account, which may be quite different from its market value or intrinsic value. 2. In corporate finance, a corporation's value, computed by subtracting all its debts from its total assets. In effect, book value is the same as net assets.

Bookkeeping

a person who is keeping the financial records (books) of a business or other economic unit, recording all the transactions in which it engages. Bookkeeping is a branch of ACCOUNTING.

Boot strap

to help a company start from scratch. Entrepreneurs founding a company with little capital are said to be boot strapping it in order to become established.

Brand

a name, term, symbol, or design (or a combination of these) that serves to identify goods or services of one seller or group of sellers and to distinguish them from those of competitors.

Breach of contract

the failure of one or both parties to a CONTRACT to perform some part of it. In that event the injured party may bring action for damages; in some cases the injured party may also rescind the contract and/or bring a suit in equity to compel the other party to honor the terms.

Break-even analysis

a technique for evaluating the relationship between a firm's fixed costs, variable costs, profits, and sales. The breakeven point is the volume of sales at which the firm's revenues equal its total operating cost. It can me measured in either units or dollars. An investigation of how changes in volume of production affect costs and profit, a valuable tool in setting a product's price. A break-even analysis is usually illustrated graphically. On a chart, one curve shows the total cost (fixed plus variable) at various levels of production, while a second shows the total income at various levels of production. The point at which the two curves intersect, called the breakeven point, indicates the level of production at which the producer neither loses money nor makes a profit.

Break-even Point

the point at which volume of sales is enough to cover all costs.

Bridging Loan

a loan to provide short-term finance, usually to buy property or land, where the loan is being cleared by longer-term borrowing or the sale of assets.

Budget

a plan for the future expressed in money terms.

Business cycle

a pattern of fluctuation in economic activity, characterized by alternate expansion and contraction. In general, business activity expands, with rising industrial production, employment, prices, wages, interest rates, and profits. It reaches a high point of prosperity and remains there for a time. Then activity begins to contract, with business volume receding, and production, employment, prices, etc., declining for a time until a low point is reached. After a time recovery begins and business activity expands again. Economists distinguish four phases, known by various names: (1) expansion (prosperity, boom) to an upper turning point, or peak; (2) contraction (crisis, recession, slump, downturn) to a lower turning point; (3) depression (trough, bust, crash, bottom); (4) recovery (revival, upturn).

Business Information Center (BIC)

one-stop locations for information, education and training designed to help entrepreneurs start, operate and grow their businesses. The centers provide free on-site counseling, training courses, and workshops.

Business interruption insurance

insurance available to cover lost income in the event of the complete or partial shutdown of a business from specified causes, e.g., fire, evacuation, etc.

Business Plan

a comprehensive planning document which clearly describes the business development objectives of an existing or proposed business. The plan outlines what and how and from where the resources will be focused.

Buying on margin

stock which buyers purchase stocks with borrowed money, gambling the share price will rise enough to pay off the loan and then some.

C

Call

an option to buy a certain amount of stock at a specific price during a specific time.

Capital

the money needed to start or grow a business.

Capital asset

in business, any asset needed to create a product (or service), normally acquired with the intention of being kept rather than being resold. Some authorities consider a capital asset identical to a fixed asset (see under ASSET), but others distinguish between the two, holding that capital assets include also intangibles (goodwill, patents, etc.) and investments in affiliated companies or other long-term investments.

Capital budget

Program for financing long-term outlays such as plant expansion, research and development, and advertising. Among methods used in arriving at a capital budget are NET PRESENT VALUE (NPV), INTERNAL RATE OF RETURN (IRR), and PAYBACK PERIOD. A long-range financial plan for acquiring and financing capital assets.

Capital expenditure

Outlay of money to acquire or improve CAPITAL ASSETS such as buildings and machinery on which the returns are expected to extend for longer than one year. Such expenses are capitalized on the balance sheet as opposed to expenses that are written off on the income statement. Also capital investment, capital outlay. The purchase price of a CAPITAL ASSET (plant, equipment, vehicles, etc.).

Capital loss

a loss that occurs when the market price of a security falls below the price paid to buy it.

Capital markets

markets where capital funds-debt and equity- are traded. Included are private placement sources of debt and equity as well as organized markets and exchanges.

Capital requirements

1. Permanent financing needed for the normal operation of a business; that is, the long-term and working capital. 2. Appraised investment in fixed assets and normal working capital. Whether patents, rights, and contracts should be included is moot.

Capitalization

total amount, expressed in dollars or as a percentage, of all debt, preferred and common stock, contributed surplus and retained earnings of a company. The sum of the various securities issued by a corporation. It may include bonds, debentures, preferred and common stock, and surplus.

Capitalization rate

rate of interest used to convert a series of future payments into a single PRESENT VALUE.

Capitalization ratio

analysis of a company's capital structure showing what percentage of the total is debt, preferred stock, common stock, and other equity. The ratio is useful in evaluating the relative RISK and leverage that holders of the respective levels of security have.

Capitalize

1. convert a schedule of income into a principal amount, called capitalized value, by dividing by a rate of interest. 2. Issue securities to finance capital outlays (rare). 3. Record capital outlays as additions to asset accounts, not as expenses. 4. Convert a lease obligation to an asset/liability form of expression called a capital lease, that is, to record a leased asset as an owned asset and the lease obligation as borrowed funds. 5. Record an expenditure initially as an asset on the balance sheet rather than as an earnings statement expense, and then write it off or amortize it (as an earnings statement expense) over a period of years. Examples include capitalized leases, interest, and research and development. 6. Turn something to one's advantage economically- for example, sell umbrellas on a rainy day.

Carry forward

in accounting, to transfer a balance from one page, account ledger, or accounting period to the next one (or any subsequent one).

Cash

Asset account on a balance sheet representing paper currency and coins, negotiable money orders and checks, and bank balances. Also, transactions handled in cash.

Cash advance

a loan taken out against a line of credit or credit card. Normally, the bank begins to charge interest from the date of the loan. Many banks also levy a flat fee for each cash advance.

Cash discount

TRADE CREDIT feature providing for a deduction if payment is made early. For example: trade terms of "2% 10 days net 30 days" allow a 2% cash discount for payment in 10 days. Term also refers to the lower price some merchants charge customers who pay in cash rather than with credit cards, in which case the merchant is passing on all or part of the merchant fee it would otherwise pay to the credit card company.

Cash earnings

cash revenues less cash expenses- specifically excluding noncash expenses such as DEPRECIATION.

Cash flow

money coming into a company and being paid out by the company. Ideally you=d want to take in at least as much as you pay out. On a personal level, you’re having a cash-flow problem if you can’t make your mortgage payments. You’re not necessarily poor; your house might be worth a lot if sold, but you’re still having cash-flow problems.

Cash ratio

Ratio of cash and marketable securities to current liabilities; a refinement of the QUICK RATIO. The cash ratio tells the extent to which liabilities could be liquidated immediately. Sometimes called liquidity ratio

Cash sale

1. In business law, a transaction in which title to goods passes when the buyer pays the seller, as opposed to a CONDITIONAL SALE, in which the seller retains title. 2. In retail selling, a transaction paid for with cash on the spot, as opposed to a credit, COD, or charge account sale. A personal check is usually, though not always, considered a cash payment. 3. In industrial and wholesale selling, a transaction for which payment is made within a specified time, such as 30 days. 4. In the securities trade, a transaction on the floor of the stock exchange that calls for delivery of the securities on the same day, instead of five business days later (for stocks) or the next day (for coupon bonds).

Cease and desist order
Federal Trade Commission ruling that orders a stop to an unfair business practice.

Certificates of deposit (CDs)
generally considered conservative investments. You purchase the CDs from financial institutionsBessentially loaning your moneyBand they promise to pay you back on a fixed date, usually with interest. You can invest for several months, but longer investments generally earn higher interest.

Certificate of incorporation
Another name for corporation charter.

Chattel Mortgage
MORTGAGE on personal property, legally called chattels, rather than on real property (land, buildings, etc.). It is most commonly used in buying high-priced consumer goods on credit, such as automobiles and large appliances. Like a real mortgage, a chattel mortgage can be viewed either as a transfer of title from borrower to lender or as a LIEN on the goods, and it terminates when the debt (plus accumulated interest) has been paid in full.

Closed-end fund
a mutual fund that sells a limited number of shares.

Closing
in real estate transactions, the delivery of the deed by the seller to the buyer upon payment of the full purchase price. Normally a closing date is specified in the contract of sale. Documents exchanged at closing may include the deed, abstract of title, mortgage, mortgage note, survey of the property, leases, insurance policies, assignments (of service contracts, etc.), and receipts for taxes, special assessments, and utilities.

Collective bargaining
the process by which labor leaders and management iron out agreements on pay and working conditions.

Collateral loan
a loan secured by some kind of property, which is either held by the lender until repayment is

made or is merely pledged. The collateral often is in the form of stocks, bonds, or some other security.

Collateral

ASSET pledged to a lender until a loan is repaid. If the borrower defaults, the lender has the legal right to seize the collateral and sell it to pay off the loan. A tangible security, with monetary value and usually readily convertible into cash, that is deposited with a creditor to guarantee repayment of a loan. Either the property itself or a document of title to it is held by the creditor until the loan is repaid.

Commercial paper

short term unsecured debt, with maturity up to 270 days. Banks, corporations and others raise money by issuing commercial paper to investors.

Commission broker

a person who does the trades for a stock brokers clients, receiving a commission for the work. The stockbroker places orders with them.

Common stock

regular old stock. Owners of this bottom rung of stocks have a piece of the company and get to vote for the board of directors and on corporate policy. But they have to queue up behind owners of preferred stock both to receive dividends and, usually, to receive assets if a company is liquidated.

Conditional sale

a common method of credit sales of durable goods when the purchase price is paid in installments. In a conditional sale, the buyer gets possession of the goods even though they are not paid for in full, but the title to the goods is retained by the seller. The seller thus remains the legal owner and may repossess the merchandise if the buyer fails to pay as agree.

Conflict of interest

in business, finance, and government, any situation where a decision made by an individual in an official capacity is likely to bring personal benefit. For example, a conflict of interest exists when a purchasing agent selects a supplier in whose company he has a financial interest, or when an investment counselor advises customers to buy stock in a company in which she herself has invested heavily and hopes to stimulate demand and drive up the price.

Consignment

a form of selling in which the owner of property, called consignor, turns it over for sale by another party, called consignee, commission merchant, or factor. The consignee does not take title to the property but merely acts as selling agent and is paid a fee, usually a percentage of the selling price, called a commission or factorage. Title passes only when the property is sold to a final buyer. A consignment differs from a conditional sale in that the consignee is not obliged to keep the goods, nor does he assume risk of loss; if the final purchaser fails to pay for the goods, the consignee does not have to compensate the owner for the loss. However, he is supposed to exercise due care that the purchaser is a reasonably good credit risk.

Contingent liabilities

banking: potential obligation of a guarantor or accommodation endorser; or the position of a customer who opens a letter of credit and whose account will be charged if a draft is presented. The bank's own ultimate responsibility for letters of credit and other commitments, individually and collectively, is its contingent liability. Corporate reports: pending lawsuits, judgments under appeal, disputed claims, and the like, representing potential financial liability.

Consolidation

also, known as amalgamation. The union of two or more formerly independent business firms into a third, new firm under single ownership. Unlike a MERGER, in which the acquiring company retains its identity, a consolidation involves the liquidation or dissolution of the old companies, which cease to exist when it takes effect.

Consumer price index (CPI)

measures price changes of common goods and services, including such things as housing and food. What you quote when you’re trying to convince your boss you need a raise to keep up with inflation.

Contract

In general, agreement by which rights or acts are exchanged for lawful consideration. To be valid, it must be entered into by competent parties, must cover a legal and moral transaction, must possess mutuality, and must represent a meeting of minds. Countless transactions in finance and investments are covered by contracts.

Contribution

accounting term meaning amount "contributed" in net cash flow toward overhead by a given product or manufacturing activity, after deduction of all direct costs associated with the production of that product.

Controller

also, comptroller. The chief accountant of a firm or other organization, responsible for instituting and operating a system of accounts and external financial reports, preparing and filing tax return, countersigning cheques, and preparing and implementing the budget.

Copyright

a grant of the exclusive right to possess, make, publish, and sell copies of a literary, musical, or artistic work, or to authorize others to do so, for a specified period of time. Copyrights may be obtained for lists of addresses, books, maps, musical compositions, motion pictures, and similar works, provided they are original expressions of an idea and are not seditious, libelous, immoral, or blasphemous. Independent of stature, the creator of a literary or artistic work has an absolute property right in his or her production so long as it remains unpublished. Infringement of copyright-copying or reproducing a copyrighted work substantially- is illegal, and the owner may collect damages (and sometimes also profits) for such infringement.

Corporation

a business owned by shareholders.

Cost-Benefit Analysis

a method of measuring the benefits expected from a decision, calculating the cost of the decision, then determining whether the benefits outweigh the costs. Corporations use this method in deciding whether to buy a piece of equipment, and the government uses it in determining whether federal programs are achieving their goals. Also, benefit-cost analysis. A systematic technique for judging among alternative ways of trying to achieve the same or related objectives. In effect it consists of quantifying and comparing the expected cost and benefit of each alternative and choosing the option whose cost-benefit ratio is smallest.

Cost of goods sold
how much it cost the seller to make or buy the goods sold. Same as “cost of sales.”

Cost-of-living adjustment (COLA)
a type of raise workers can get to reflect the higher cost of consumer goods. Also a sort of corporate hardship pay for employees sent to live and work in expensive places.

Cost of Production
in a manufacturing business, total cost of materials, labor, and overhead charged to producing a particular item. It is the single most important factor in determining that items ultimate price

Coupon
a detachable part of traditional bond certificates. You present these to the issuer to collect your interest payments.

Coupon rate
a bonds annual interest rate, stated as a percentage of what was originally paid for the bond. Gets its name from traditional bond certificates, which have coupons you detach and return to the issuer to collect your interest payments.

Credit risk
Financial and moral risk that an obligation will not be paid and a loss will result.

Creditor
Party that extends credit, such as a trade supplier, a bank lender, or a bondholder. In general, anyone to whom a debt is owed.

Creditworthiness
General eligibility of a person or company to borrow money.

Cumulative preferred
preferred stock that is due dividends, even if payments are delayed until the company can afford them. The amount owed builds until the dividends are paid. Owners are entitled to their payments before common-stock owners can collect theirs.

Current assets

the cash and assets that are expected to be used, sold or converted to cash in the near future, usually one year. A sporting goods store's current assets would include the money in the register and its bicycles, as well as short-term insurance policies and marketable securities -securities expected to be turned into cash in one year.

Current liabilities

these liabilities must be paid in a relatively short time, usually one year. Taxes are one example.

Current ratio

Current assets divided by current liabilities. This ratio shows a company's ability to pay its current obligations from current assets. For the most part, a company that has a small inventory and readily collectible accounts receivable can operate safely with a lower current ratio than a company whose cash flow is less dependable. In analyzing a BALANCE SHEET, the proportion of current assets to current liabilities. Most analysts hold that for a manufacturing company the minimum current ratio should be 2 to 1, that is, current assets should be at least twice as great as current liabilities. However, companies with small inventories and easily collected accounts receivable can safely operate with a lower current ratio than companies that have a large proportion of current assets tied up in inventories and sell their output largely on credit.

Customs broker

an individual or, more often, a firm that brings imported goods through customs and prepares export shipments to go through customs at their port of entry. This work is frequently undertaken by a FORWARDING AGENT specializing in imports and exports (also called foreign freight forwarder).

D

Debentures

Similar to a bond, a debenture is a formal written obligation of a company to repay a specified sum on a certain date(s). Debentures are normally registered and are frequently secured by one or more assets, but not usually in first position, i.e., the most senior. A debenture usually contains negative covenants (what the borrower may not do, e.g., allow current ratio to fall below 1:1) and positive covenants (what the borrower must do, such as pay interest when due). Failure to meet a covenant gives the debenture holder the right to certain remedies, e.g., call the loan, put in a receiver, etc. See also FIXED CHARGE; FLOATING CHARGE. A BOND backed by the general credit of the issuer but not secured by a mortgage or lien on any specific property. It normally has a stated maturity date and rate of interest. Debentures are the most common kind of bond issued by large, well-established corporations (with good credit ratings).

Debit

in accounting, an entry on the left, or asset, side of an account, indicating the creation of or addition to an asset or an expense, or the reduction or elimination of a liability.

Debt

1. Money, goods, or services that one party is obligated to pay to another in accordance with an expressed or implied agreement. Debt may or may not be secured. 2. General name for bonds, notes, mortgages, and other forms of paper evidencing amounts owed and payable on specified dates or on demand.

Debt-to-net-worth ratio

also known as debt-equity ratio. To get it, you divide liabilities by stockholders= equity. This is a general measure of how safe creditors can feel about their loans. Creditors often avoid lending to companies with a high debt-equity ratio.

Debt retirement

the repayment of debt. The most common method of retiring corporate debt is to set aside money each year in a SINKING FUND. Most municipal bonds and some corporates are issued in serial form, meaning different portions of an issue-called series-are retired at different times, usually on an annual or semiannual schedule. Sinking fund bonds and serial bonds are not classes of bonds, just methods of retiring them that are adaptable to debentures, convertibles, and so on.

Debt security

security representing money borrowed that must be repaid and having a fixed amount, a specific maturity or maturities, and usually a specific rate of interest or an original purchase discount. For instance, a BILL, BOND, COMMERCIAL PAPER, or a NOTE.

Debt service

cash required in a given period, usually one year, for payments of interest and current maturities of principal on outstanding debt. In corporate bond issues, the annual interest plus annual sinking fund payments; in government bonds, the annual payments into the debt service fund.

Deflation
opposite of inflation. Decrease in the general price of consumer goods and services.

Deferred charge
Expenditure carried forward as an asset until it becomes relevant, such as an advance rent payment or insurance premium. The opposite is deferred income, such as advance rent received.

Deferred income
the income that has been received but not yet earned (and hence is sometimes called "unearned" income). Examples include an advance to an author against royalties, rent paid in advance, and payment for a magazine subscription. On the BALANCE SHEET deferred income is listed under liabilities, offsetting the increase in cash assets resulting from such payments.

Deficit
1. Excess of liabilities and debts over income and assets. Deficits usually are corrected by borrowing or by selling assets. 2. In finance, an excess of expenditures over budget. In accounting, the precise excess of liabilities over assets, or of expenditures over receipts.

Demand deposit
checking account so named because you can demand your moneyCor write a checkCwithout clearing it with the bank first.

Depreciation
dividing the cost of an asset over that asset's usable life. When dealing with a $200,000 factory expected to be used for 10 years, you would count $20,000 a year as expenses. Assets are considered unusable if they don't work well anymore or are obsolete.

Derivative

a type of investment whose value depends on the value of other investments, indices or assets. A stock option is a common type of derivative.

Direct cost

a business cost that is directly related to producing a product or service. Direct cost consists chiefly of the materials and supplies used to make a product and the wages and salaries of personnel working in its production. Direct cost is important to a firm because it usually represents the minimum figure at which it is advantageous to sell in a very weak market. Selling prices frequently are the sum of direct cost plus a markup, the markup being designed to yield the expected profit provided anticipated sales are great enough to absorb all overhead.

Direct mail advertising

a form of advertising through letters, cards, and other literature sent by mail to potential customers. It is used either to solicit mail-order purchases or to direct customers to particular products or retail stores.

Disbursement

paying out of money in the discharge of a debt or an expense, as distinguished from a distribution

Disclosure

release by companies of all information, positive or negative, that might bear on an investment decision, as required by the Securities Commission and the stock exchanges.

Discount brokers

discount stock brokers are to full-service brokers as warehouse stores are to boutiques. You don't expect much, if any, advice from your discount broker on what to buy. She or he usually doesn't expect you to pay as much as you would at full-service brokers. A discount broker's main job is to carry out your requests to buy and sell.

Dissolution

the termination of a partnership, corporation, or other business organization. A corporation may voluntarily surrender its charter, take part in a merger or consolidation, forfeit its charter, or be dissolved by its stockholders. Insolvency or bankruptcy alone does not effect such a dissolution, though either may become grounds for voluntary or involuntary dissolution. A partnership is dissolved when its term expires or its aim (as stated in the original agreement) is accomplished, when either partner or all partners wish to withdraw from it, or when a partner is expelled, dies, etc. In contrast to a corporation, the dissolution of a partnership involves a change in the relation of the partners but does not actually end the partnership; a partnership is terminated officially only when its affairs are completely wound up.

Distribution

corporate finance: allocation of income and expenses to the appropriate subsidiary accounts. Economics: (1) movement of goods from manufacturers; (2) way in which wealth is shared in any particular economic system. Estate law: parceling out of assets to the beneficiaries named in a will, as carried out by the executor under the guidance of a court. Mutual funds and closed-end investment companies: payout of realized capital gains on securities in the portfolio of the fund or closed-end investment company. Securities: sale of a large block of stock in such manner that the price is not adversely affected. Technical analysts look on a pattern of distribution as a tip-off that the stock will soon fall in price. The opposite of distribution, known as ACCUMULATION, may signal a rise in price. In business, the process of conveying goods and services from the producer to the market. Unlike MARKETING, distribution involves the physical movement of goods (transportation, traffic) but does not include advertising and selling. Some writer, however, use "marketing" and "distribution" interchangeably, while others interpret distribution as the entire movement of goods from producer to ultimate consumer, including their preparation, selling, shipping, and storing, but describe the selling and promotion function as "merchandising." The different stages goods go through- from producer to wholesaler to retailer- are sometimes called channels of distribution.

Distributor

wholesaler of goods to dealers that sell to consumers. An individual or firm selling manufactured products, either to retail outlets (dealers) or directly to consumers. A distributor thus is virtually identical to a wholesaler.

Diversification

an investing technique. The idea is to buy lots of different types of investments so if the value of one nose dives, you’re not suicidal.

Divestiture

distribution of earnings to shareholders, prorated by class of security and paid in the form of money, stock, scrip, or, rarely, company products or property. The amount is decided by the board of directors and is usually paid quarterly. Dividends must be declared as income in the year they are received. Mutual fund dividends are paid out of income, usually on a quarterly basis from the fund's investments. Dividend income paid out by the fund is subject to the dividend tax credit if the fund is Canadian, offering a 25% advantage to investors. Income is taxed in full if the dividends are foreign.

Dividends

payments corporations make to their shareholders. The per-share amount is determined by corporate earnings.

Dollar-cost-averaging

a system of buying securities at regular intervals with a fixed-dollar amount. The investor buys by the dollar's worth rather than by the number of shares. If the number of dollars stays constant, investments buy more shares when prices are low and fewer when prices are high. Temporary downswings in price benefit the investor who continues to buy in good times and bad, as the price at which shares are sold exceeds the average purchase price.

Dow Jones Industrial Average

an important stock market indicator, used to judge the stock market's general well-being and how well your stocks are doing comparatively. It measures the performance of 30 industrial stocks. When the media reports that the market rose 20 points, they"re really saying the Dow rose 20 points.

Drop shipment

a shipment sent directly from a manufacturer to a retailer or industrial customer, even though it was ordered through a wholesaler who takes title to the goods and collects the usual wholesale discount.

E

Earned income

income (especially wages and salaries) generated by providing goods or services. Also, pension or annuity income. Income derived from actual work or services performed, as opposed to income from investments, rent, etc.

Earnings

the operating profits of a business.

Earnings before taxes

Corporate profits after interest has been paid to bondholders, but before taxes have been paid.

Earnings per share

the amount of money a company makes per share of common stock. This figure is calculated by taking net income and dividing it by the number of common shares outstanding.

Earnings statement

financial statement showing a company's revenues and expenditures and whether it has shown a profit or a loss during a financial period.

Employee stock purchase plan

also known as employee stock ownership plan, ESOP. A plan that permits employees to purchase stock in their company, often at a discount from the current market price, by means of payroll deductions.

Encumbered

owned by one party but subject to another party's valid claim. A homeowner owns his or her mortgaged property, for example, but the bank has a security interest in it as long as the mortgage loan is outstanding.

Equity

investments: ownership interest possessed by shareholders in a corporation-stock as opposed to bonds. Investors in equity funds benefit from both capital gains and dividend income. Personal finance: payment of principal of a debt, in order to build ownership value in the item. To arrive at the equity value, take the amount of principal and subtract any debts against the property. 1. The excess of a firm's assets over its liabilities. 2. Also, equity capital, stockholder= equity. The portion of a corporation’s assets Ball or part- that is owned by the holders of common and preferred stock.

Equity financing

Raising money by issuing shares of common or preferred stock. Usually done when prices are high and the most capital can be raised for the smallest number of shares.

Equity kicker

Offer of an ownership position in a deal that involves loans. For instance, a mortgage real estate limited partnership that lends to real estate developers might receive as an equity kicker a small ownership position in a building that can appreciate over time. When the building is sold, limited partners receive the appreciation payout. In return for that equity kicker, the lender is likely to charge a lower interest rate on the loan. Convertible features and warrants are offered as equity kickers to make securities attractive to investors.

Escrow

Money, securities, or other property or instruments held by a third party until the conditions of a contract are met.

Export

a domestically produced good sold abroad. What Japan made its fortunes onBexports to the U.S. and elsewhere.

F

Fiduciary

a term applied to a person on whom a trust has developed, that is, a trustee. It is also used to describe a transaction based on faith or confidence, such as a loan unsecured by collateral.

Financial breakeven point

level of earnings before interest and taxes (EBIT) necessary for a firm to be just able to meet its fixed financial obligations, i.e., the level of earnings before interest and taxes at which the earnings per share just equal zero. The higher the financial breakeven point, the more financially risky the firm is considered.

Financial market

a market for the exchange of capital and credit in the economy. Money markets concentrate on short-term debt instruments; capital markets trade in long-term debt and equity instruments. Examples of financial markets: stock market, bond market, commodities market, and foreign exchange market.

Financial position

status of a firm's assets, liabilities, and equity accounts as of a certain time, as shown on its FINANCIAL STATEMENT. Also called financial condition.

Financial statement

written record of the financial status of an individual, association, or business organization. The financial statement includes a BALANCE SHEET and an INCOME STATEMENT (or operating statement or profit and loss statement) and may also include a STATEMENT OF CASH FLOWS, a statement of changes in retained earnings, and other analyses.

Financial structure

makeup of the right-hand side of a company's BALANCE SHEET, which includes all the ways its assets are financed, such as trade accounts payable and short-term borrowings as well as long-tem debt and ownership equity. A company's financial structure is influenced by a number of factors, including the growth rate and stability of its sales, its competitive situation (i.e., the stability of its profits), its asset structure, and the attitudes of its management and its lenders. It is the basic frame of reference for analyses concerned with financial leveraging decisions.

Fiscal year (FY)

accounting period covering 12 consecutive months, 52 consecutive weeks, 13 four-week periods, or 365 consecutive days, at the end of which the books are closed and profit or loss is determined. A company's fiscal year is often, but not necessarily, the same as the calendar year. A seasonal business will frequently select a fiscal rather than a calendar year, so that its year-end figures will show it in its most liquid condition, which also means having less inventory to verify physically. The FY of the Canadian Government ends March 31.

Fixed asset

is the tangible property used in the operations of a business, but not expected to be consumed or converted into cash in the ordinary course of events. Plant, machinery and equipment, furniture and fixtures, and leasehold improvements comprise the fixed assets of most companies. They are normally represented on the balance sheet at their net depreciated value.

Fixed charge

in accounting, rental and interest charges that must be paid regardless of business volume. In corporate finance, fixed charges are deducted from income before earnings or equity capital are calculated.

Fixed cost

the cost that remains constant regardless of sales volume. Fixed costs include salaries of executives, interest expense, rent, depreciation, and insurance expenses. They contrast with variable costs (direct labour, materials costs), which are distinguished from semi-variable costs. Semi-variable costs vary, but not necessarily in direct relation to sales. They may also remain fixed up to a level of sales, then increase when sales enter a higher range.

Fixed-price contract

any purchase order in which the price of the purchased item is quoted as a specific figure, as opposed to a contract including an ESCALATION clause to protect the seller if costs rise, or a price redetermination clause, to allow for review and renegotiation of the selling price after the seller acquires experience with the item being sold.

Fixed-rate loans

a loan whose interest rate doesn’t change. A conventional mortgage is an example.

Fixture

an article that has been installed in or attached to a building or land in a more or less permanent way, so that legally it is considered part of the real estate. Prior to such installation, however, the article is regarded as PERSONAL PROPERTY.

Float

Banking: time between the deposit of a cheque in a bank and payment. Long floats are to the advantage of cheque writers, whose money may earn interest until a cheque clears. They are to the disadvantage of depositors, who must wait for a cheque to clear before they have access to the funds.

Another meaning for float is in the area of Investments. A float is the number of shares of a corporation that are outstanding and available for trading by the public. A small float means the stock will be more volatile, since a large order to buy or sell shares can influence the stock's price dramatically. A larger float means the stock will be less volatile.

Floating debt

continuously renewed or refinanced short-term debt of companies or governments used to finance ongoing operating needs.

Foreclosure

a proceeding undertaken when a mortgage is in default and all efforts to salvage the property for the mortgagor by sale, refinancing, and other means have failed. Through foreclosure the mortgagee can acquire ownership of the property.

Franchising

setting up a system like McDonald's. A company (the franchiser) grants the right to use its name and sell its products to a person or group (the franchisee).

Fraud

the intentional misrepresentation, concealment, or omission of the truth for the purpose of deception or manipulation to the detriment of a person or an organization.

Free on board (FOB)

a transportation term meaning that the invoice price includes delivery at the seller's expense to a specified point and no further. For example, "FOB our Toronto warehouse" means that the buyer must pay all shipping and other charges associated with transporting the merchandise from the seller's warehouse in Toronto to the buyer's receiving point.

Freight forwarder

can also be known as a forwarding agent. A middleman in the business of wholesaling transportation. A freight forwarder accumulates small shipments from numerous shippers and combines them into larger quantities (full truckloads or carloads) to obtain lower freight rates, making a profit on some of the difference in rates for small and large shipments. Such firms are particularly useful for export shipments, where they help take care of much of the complicated paperwork involved.

Full disclosure

the requirement to disclose all material facts relevant to a transaction. Securities industry: public information requirements established by the Securities Commission, and the major stock exchanges.

Full-service brokers

an individual who offers you for a high fee a wide range of services including advice on what stocks to buy and sell. The Aself-serve@ variety of broker is called a discount broker, who generally just handles trades.

Futures contract

an agreement to buy or sell a commodity or financial instrument at a specific price and on a set date. Unlike an option, in that the seller must sell and the buyer must buy at the established time. Futures can be traded among parties.

G

Garnishment

a procedure whereby the property, wages, money, or credits of a debtor are taken away and paid to his or her creditors. The term is most often used for the taking of wages which then are paid direct to the employee’s creditor.

General Agreement on Tariffs and Trade (GATT)

an international accord meant to stimulate trade. It encourages lowering tariffs and abolishing quotas that restrict imports.

General ledger

Formal ledger containing all the financial statement accounts of a business. It contains offsetting debit and credit accounts, the totals of which are proved by a trial balance. Certain accounts in the general ledger, termed control accounts, summarize the detail booked on separate subsidiary ledgers.

General partner

General partners are liable for all of their partnership's debts.

Generally Accepted Accounting Principles (GAAP)

the rules and procedures generally accepted by accountants. The rules guide them in assessing and reporting on a company's finances.

Goodwill

is generally understood to represent the value of a well-respected business name, good customer relations, high employee morale, and other such factors expected to translate into greater than normal earning power. However, because this intangible asset has no independent market or liquidation value, accepted accounting principles require that goodwill be written off over a period of time.

Grace period

a period of time provided in most loan contracts and insurance policies during which default or cancellation will not occur even though payment is due.

Grandfather clause

Provision included in a new rule that exempts from the rule a person or business already engaged in the activity coming under regulation.

Gross Domestic Product (GDP)

the key indicator of an economy's health, this is the value of all the goods and services produced by a country in a given period of time. Used to be called Gross National Product, or GNP.

Gross lease

a property lease under which the lessor (landlord) agrees to pay all the expenses normally associated with ownership (insurance, taxes, utilities, repairs). An exception might be that the lessee (tenant) would be required to pay real estate taxes above a stipulated amount or to pay for certain special operating expenses (snow removal, grounds care in the case of a shopping centre, or institutional advertising, for example). Gross leases are the most common type of lease contract and are typical arrangements for short-term tenancy. They normally contain no provision for periodic rent adjustments, nor are there preestablished renewal arrangements.

Gross National Product (GNP)

an out-of-date name for gross domestic product (GDP). GDP is a key indicator of an economy's health; it's the value of all the goods and services produced by a country in a given period of time.

Gross profit

sales revenue minus the cost of making or buying the things that were sold (cost of goods sold). If a manufacturer sold 10 bikes for $300 a piece, and each bike cost him $250 to make, the company's gross profit is $500.

Gross sales

the revenue from a company's total sales before deducting for returns and discounts.

Growth rate

the percentage rate at which the economy, stocks, or earnings are growing. The economic growth rate is normally determined by the growth of the GROSS DOMESTIC PRODUCT. Individual companies try to establish a rate at which their earnings grow over time. Firms with long-term earnings growth rates of more than 15% are considered fast-growing companies. Analysts also apply the term growth rate to specific financial aspects of a company's operations, such as dividends, sales, assets, and market share. Analysts use growth rates to compare one company to another within the same industry.

Growth funds

mutual funds that invest in companies that pay little or no dividends and reinvest their profits in expansion and in research and development. You buy these if you're willing to give up dividend income in return for a chance at big gains in the stock price over time.

Guarantee

is a CONTINGENT LIABILITY of the guarantor- that is, it is a potential liability not recognized in accounts until the outcome becomes probable in the opinion of the company's accountant. The undertaking of responsibility by one person for another's debt or obligation to perform some act or duty, or generally to assure that a thing will be done as promised. The original debtor is still liable for payment or performance, but in case of default the maker of the guaranty, called guarantor, can be called on.

H

Hidden Values

Assets owned by a company but not yet reflected in its stock price. For example, a manufacturing firm may own valuable real estate that could be sold at a much higher price than it appears on the company's books, which is usually the price at which the real estate was purchased. Other undervalued assets that could have significant value include patents, trademarks, or exclusive contracts. Value-oriented money managers search for stocks with hidden values on their balance sheet in the hope that some day, those values will be realized through a higher stock price either by actions of the current management or by a takeover.

High ticket items

items with a significant amount of value, such as jewelry and furs. Most standard homeowner's/renter's policies have limits on specific types of high-ticket items. Most policies have a limit of $1000-$2000 for all jewelry and furs. To provide appropriate coverage for these items, they should be scheduled separately in the form of a FLOATER or endorsement. Also called valuables.

Holding company

a corporation that owns enough voting stock in another corporation to influence its board of directors and therefore to control its policies and management.

Holding period

the length of time an asset is held by its owner.

Hostel takeover

also known as an unfriendly takeover. It is a takeover of a company against the wishes of current management and the board of directors. This takeover may be attempted by another company or by a well-financed RAIDER. If the price offered is high enough, shareholders may vote to accept the offer even if management resists and claims that the company is actually worth even more. If the acquirer raises the price high enough, management may change its attitude, converting the hostile takeover into a friendly one. Management has many weapons at its disposal to fend off a hostile takeover, such as GREENMAIL, POISON PILLS, the SCORCHED EARTH POLICY, and SUICIDE PILLS, among others. Also called unfriendly takeover.

Hypothecation

Banking: pledging property to secure a loan. Hypothecation does not transfer title, but it does transfer the right to sell the hypothecated property in the event of default. Securities: pledging of securities to brokers as collateral for loans made to purchase securities or to cover short sales, called margin loans. When the same collateral is pledged by the broker to a bank to collateralize a broker's loan, the process is called re-hypothecation.

I

Income

a general term for money earned or accrued during a particular accounting period from any source (sales, rentals, investments, gifts, etc.), which increases previously existing net assets.

Income asset

any investment asset that produces a regular income monthly, quarterly, or annually, such as interest and dividend income. This may include Guaranteed Investment Certificates, preferred shares, and a mutual fund income fund of dividend-bearing shares.

Income from continuing operations

revenue minus expenses, including taxes. This doesn't include income from discontinued operations, like a closed arm of the corporation; extraordinary items or the financial effect of a change in accounting principles.

Income property
real estate bought for the income it produces.

Income statement
also known as earnings report, operating statement, profit-and-loss statement. A summary of the revenues and expenses of a business firm or other organization for a particular period of time, generally one year. Serving as a record of the organization's operating activities, the income statement matches the amounts received from selling goods or services, or other items of income, against the cost of goods sold and other outlays made in the operation of the company. The result is net income-a net profit if it is positive and a net loss if negative (sales minus costs equal net profit or loss).

Income stock
stock which pay high and regular dividends to shareholders. Some industries known for income stocks include gas, electric, and telephone utilities; banks; and insurance companies. High-quality income stocks have established a long history of paying dividends, and in many cases have a track record of regularly increasing dividends.

Incorporation
process by which a company receives a provincial or federal charter allowing it to operate as a corporation. The fact of incorporation must be acknowledged in the company's legal name, using the word Limited, or Ltd. Or Inc. or other acceptable variations.

Indirect Cost
a business cost incurred by a firm producing goods or services that usually cannot be directly associated with any particular good or service but rather results from general productive activity. It is any cost of production other than direct labor and direct materials cost. Since indirect cost tends to vary little with volume of output, some authorities identify it with fixed cost.

Inflation
an increase in the general price of consumer goods and services.

Infrastructure

a nation’s basic system of transportation, communication, and other aspects of its physical plant.

Injunctions

courts issue these to stop a person or group from doing something that might cause future harm.

Insolvency

inability to pay debts when due.

Interest

what a borrower pays for the privilege of using someone else’s money for a given period of time.

Interest -only loan

form of loan where the only current obligation is interest and where repayment of principal is deferred.

Interim Financing

temporary, short-term loan made conditional on a TAKEOUT by intermediate or long-term financing. Also called bridge loan financing.

Intermediary

Also known as a financial intermediary. It is a person or institution empowered to make investment decisions for others. Some examples are banks, trust companies, insurance companies, brokerage firms, mutual funds, and credit unions.

Internal rate of return (IRR)

a discount rate at which the present value of the future cash flows of an investment equal the cost of the investment. It is found by a process of trial and error; when the net present values of cash outflows (the cost of the investment) and cash inflows (return on the investment) equals zero, the rate of discount being used is the IRR. When IRR is greater than the required return-called the hurdle rate in capital budgeting-the investment is acceptable.

International Monetary Fund (IMF)

an international lending institution that focuses on stabilizing currencies. The United States contributes heavily to the fund and has the greatest number of votes about where to lend money. This is the group trying to resuscitate Asia's troubled economies by pouring in billions so the countries can repay debt.

Inventory

in the are of corporate finance: the value of a firm's raw materials, work in process, supplies used in operations, and finished goods. Since inventory value changes with price fluctuations, it is important to know the method of valuation. There are a number of inventory valuation methods; the most widely used are FIRST IN, FIRST OUT (FIFO) and LAST IN, FIRST OUT (LIFO).

Inventory Financing

is where loans in excess of accounts receivable are made against inventory in anticipation of future sales. In the case of financing by a bank or sales finance company of the inventory of a dealer in consumer or capital goods. Such loans are secured by the inventory and are usually made as part of a relationship in which retail installment paper generated by sales to the public is also financed by the lender.

Inventory Turnover

is the ratio of annual sales to inventory, which shows how many times the inventory of a firm is sold and replaced during an accounting period. It is sometimes called inventory utilization ratio.

Inventory Valuation

In accounting, determining the cost of inventories. Normally manufacturing inventories are divided into three categories: raw materials to be used in the end-product; semifinished goods in process of manufacture (or work-in-process); and finished goods ready for shipment to customers. Usually inventories are valued at original COST OR MARKET price, whichever is lower.

Investor

an individual (or institution) who puts money at risk but whose principal concern is the minimization of risk, in contrast to the speculator, who is prepared to accept calculated risk in the hope of making better-than-average profits, or the gambler, who is prepared to take even greater risks.

Invoice

a bill prepared by a seller of goods or services which lists all the items bought, together with amount and cost and is submitted to the purchaser. The invoice is called a sales invoice by the seller and purchase invoice by the buyer.

Issue

1. Stock or bonds sold by a corporation or a government entity at a particular time. 2. Selling new securities by a corporation or government entity, either through an underwriter or by a private placement. 3. Descendants, such as children and grandchildren. For instance, "This woman’s estate will be passed, at her death, to her issue." Any securities or obligations of a company that are put into the hands of the public. Also, the act of distributing such securities, also called floating an issue.

Issued and Outstanding

Shares of a corporation, authorized in the corporate charter, which have been issued and are outstanding. These shares represent capital invested by the firm’s shareholders and owners, and may be all or only a portion of the number of shares authorized. Shares that have been issued and subsequently repurchased by the company are called treasury stock, because they are held in the corporate treasury pending reissue or retirement. Treasury shares are legally issued but are not considered outstanding for purposes of voting, dividends, or earnings per share calculations. Shares authorized but not yet issued are called unissued shares. Most companies show the amount of authorized issued and outstanding, and treasury shares in the capital section of their annual reports

J

Jobber

Wholesaler, especially one who buys in small lots from manufacturers, importers, and/or other wholesalers and sells to retailers.

Joint Account

a bank or brokerage account owned jointly by two or more people. Joint accounts may be set up in two ways: (1) either all parties to the account must sign cheques and approve all withdrawals or brokerage transactions or (2) any one party can take such actions on his or her own.

Joint liability

mutual legal responsibility by two or more parties for claims on the assets of a company or individual.

Joint ownership

Equal ownership by two or more people, who have right of survivorship.

Joint tenants

Form of joint ownership in which the death of one joint owner results in the immediate transfer of ownership to the surviving joint owner or owners.

Joint venture

an agreement by two or more parties to work on a project together.

K

Kiting

Banking: (1) depositing and drawing cheques between accounts at two or more banks and thereby taking advantage of the FLOAT- that is, the time it takes the bank of deposit to collect from the paying bank. (2) fraudulently altering the figures on a cheque to increase its face value. Securities: driving stock prices to high levels through manipulative trading methods, such as the creation of artificial trading activity by the buyer and the seller working together and using the same funds.

L

Last-in First-out (LIFO)

a system of inventory accounting in which the items that are received last are regarded as being used first during an accounting period.   Results in cost of production being charged the most recent purchase cost.

Layoff

the temporary or permanent removal of a worker from the payroll, usually owing to production cutbacks or to technological change (such as replacement of human labor with machinery). A layoff for disciplinary reasons-inadequate performance, infraction of company rules, etc.-is called a discharge or firing.

Lease

a contract granting use of real estate, equipment, or other fixed assets for a specified time in exchange for payment, usually in the form of rent. The owner to the leased property is called the lessor, the user the lessee. The most common kind of lease involves real estate. Legally a real estate lease is not only a contract but a CONVEYANCE by the landlord (or lessor), who is usually but not always the owner, to the tenant (or lessee) to occupy the land (premises) for the term specified in the lease. The lessee's interest in the land for that period is called leasehold.

Legal Entity

a person or organization that has the legal standing to enter into a contract and may be sued for failure to perform as agreed in the contract. A child under legal age is not a legal entity; a corporation is a legal entity since it is a person in the eyes of the law.

Legal Liability

(1) monies owed, shown on a balance sheet. (2) individual's or company's obligation to act responsibly or face compensatory penalties.

Letter of Credit (L/C)

an instrument or document issued by a bank guaranteeing the payment of a customer's drafts up to a stated amount for a specified period. It substitutes the bank's credit for the buyer's and eliminates the seller's risk. It is used extensively in international trade. A commercial letter of credit is normally drawn in favour of a third party, called the beneficiary. A confirmed letter of credit is provided by a correspondent bank and guaranteed by the issuing bank. A revolving letter of credit is issued for a specified amount and automatically renewed for the same amount for a specified period, permitting any number of drafts to be drawn so long as they do not exceed its overall limit. A traveler's letter of credit is issued for the convenience of a traveling customer and typically lists correspondent banks at which drafts will be honoured. A performance letter of credit is issued to guarantee performance under contract.

Letter of Intent

any letter expressing an intention to take (or not take) an action, sometimes subject to other action being taken.

Leveraged buyout (LBO)

the purchase of a company using borrowed money. Usually the buyer secures the loan with the assets of the company to be purchased.

Liability

claim on the assets of a company or individual-excluding ownership EQUITY. Characteristics: (1) It represents a transfer of assets or services at a specified or determinable date. (2) The firm or individual has little or no discretion to avoid the transfer. (3) The event causing the obligation has already occurred.

Lien

a creditor's claim against property. For example, a mortgage is a lien against a house; if the mortgage is not paid on time, the house can be seized to satisfy the lien. As soon as a debt is paid, the lien is removed. Liens may be granted by courts to satisfy judgments. They must be registered under provincial law in order to be protected and enforceable.

Limited Company

a form of business most common in Britain and Canada, where registration under the Companies Act is comparable to incorporation under provincial law in Canada. It is abbreviated Ltd.

Limited Liability

liability is limited to an investor's original investment. In contrast, a general partner or the owner of a PROPRIETORSHIP has unlimited liability. Responsibility for the debts of a business that is restricted to the size of one's investment in it. Limited liability is a major advantage of the corporate form of business organization; see also under CORPORATION.

Limited partnership

an organization made up of a GENERAL PARTNER, who manages a project, and limited partners, who invest money but have limited liability, are not involved in day-to-day management, and usually cannot lose more than their capital contribution.

Limited partner

an owner in a limited partnership who's liable only up to the amount of money invested.

Line of credit

allows the customer to borrow up to a certain amount of money without applying for another loan.

Liquid asset

Cash or easily convertible into cash. Some examples: money-market fund shares, U.S. Treasury bills, bank deposits. In a corporation's financial statements, liquid assets are cash, marketable securities, and accounts receivable.

Liquidation

1. Dismantling of a business, paying off debts in order of priority, and distributing the remaining assets in cash to the owners. 2. Process of converting securities or other property into cash. 1. Payment of an obligation, such as repayment of a loan. Such a loan is then said to be "liquidated" 2. Converting an asset into cash, as, for example, accounts receivable, shares of stock, inventory, etc. 3. The dissolution of a business, estate, or other economic unit through the sale of its assets and the settlement of its liabilities. The amount that could be realized from dissolving a partnership or other business is called its liquidation value, which usually is quite different from its value as an ongoing business.

Liquidity

Ability to buy or sell an asset quickly and in large volume without substantially affecting the asset's price. Liquidity also refers to the ability to convert to cash quickly.

Liquidity Ratio

Measure of a firm's ability to meet maturing short-term obligations.

Loan Agreement

Contract between the bank and the borrowers in which the terms and conditions of a credit commitment are money available to a borrower in a specified amount, at a specified rate, and within a specified time.

Loan to Value Ratio (LTV)

Ratio of money borrowed to fair market value, usually in reference to real property. Residential mortgage loans conventionally have a maximum LTV of 80% (an $80,000 loan on a $100,000 house).

Long-term debt

liability due in a year or more. Normally, interest is paid periodically over the term of the loan, and the principal amount is payable as notes or bonds mature.

Lump Sum

large payment of money received at one time instead of in periodic payments.

M

Management buyout

also called a leveraged buyout (LBO) it is the purchase of all of a company's publicly held shares by the existing management, which takes the company private. Usually, management will have to pay a premium over the current market price to entice public shareholders to go along with the deal.

Margin

in general terms it is the amount a customer deposits with a broker when borrowing from the broker to buy securities. In the area of corporate finance it is the difference between the price received by a company for its products and services and the cost of producing them. Also known as gross profit margin.

Marginal Cost

the addition to the total cost of one extra unit of output.

Marginal Revenue

change in total revenue caused by one additional unit of output. It is calculated by determining the difference between the total revenues produced before and after a one-unit increase in the rate of production.

Market

1. In general, a public place for buying and selling goods and services, either directly or through some intermediary (such as an agent or broker). 2. A place for exchanging securities, particularly a stock market, such as the New York Stock Exchange. 3. The demand for a product or service, for example, the market for wheat. 4. In economic theory, the sum of buyers and sellers of any good or service and their interaction.

Market Capitalization

Value of a corporation as determined by the market price of its issued and outstanding common stock. It is calculated by multiplying the number of outstanding shares by the current market price of a share.

Market Price

1. In economic theory, the price determined by the interaction of supply and demand. See also PRICE. 2. The current prevailing price for a particular commodity, based on the sum of buying and selling at a given time. 3. In the securities trade, the last reported price at which a security was sold.

Market Research

exploration of the size, characteristics, and potential of a market to find out, before developing any new product or service, what people want and need.

Market Share

percentage of industry sales of a particular company or product.

Market Value

is the price at which buyers and sellers trade similar items in an open marketplace. In the absence of a market price, it is the estimated highest price a buyer would be warranted in paying and a seller justified in accepting, provided both parties were fully informed and acted intelligently and voluntarily.

Marketability

the speed and ease with which a particular security may be bought and sold.

Marketing

moving goods and services from the provider to consumer. This involves product origination and design, development, distribution, advertising, promotion, and publicity as well as market analysis to define the appropriate market.

Mark-up

the percentage by which a seller increases the selling price of goods over the price he paid for them. Conventionally it is computed as a percentage of the retail selling price.

Maturity date

the date on which the principal amount of a note, draft, acceptance bond, or other debt instrument becomes due and payable. Also termination or due date on which an installment loan must be paid in full.

Mediation

the settlement of a dispute through the active intervention of a neutral third party, called the mediator, who clarifies issues, asks questions, and proposes solutions. A mediator has no authority over either side; each remains free to accept or reject the proposals. Mediation is used very often to settle labor disputes.

Merger

the combination of two or more companies, either through a POOLING OF INTERESTS, where the accounts are combined; a purchase, where the amount paid over and above the acquired company’s book value is carried on the books of the purchaser as goodwill; or a consolidation. Where a new company is formed to acquire the net assets of the combining companies. Strictly speaking, only combinations in which one of the companies survives as a legal entity are called mergers or, more formally, statutory mergers; thus consolidations, or statutory consolidations, are technically not mergers, though the term merger is commonly applied to them. The union of two or more formerly independent business firms under a single ownership, accomplished by the complete acquisition of one company's stock by another, either for cash or for stock in the acquiring company. The acquired corporation then disappears as a separate entity, usually becoming a subsidiary of the acquiring company. A merger also may be effected by an outright purchase of the assets of another enterprise; the selling corporation then may survive and use its cash for some other kind of business. A merger may be horizontal, vertical, or conglomerate- that is, it may involve acquisition of a competitor in the same line, of a supplier or a customer, or of a totally unrelated business.

Minority Interest

interest of shareholders who, in the aggregate, own less than half the shares in a corporation. On the consolidated balance sheets of companies whose subsidiaries are not wholly owned, the minority interest is shown as a separate equity account or as a liability of indefinite term. On the income statement, the minority's share of income is subtracted to arrive at consolidated net income.

Monopoly

control of the production and distribution of a product or service by one firm

Mortgage

debt instrument by which the borrower (mortgagor) gives the lender (mortgagee) a lien on property as security for the repayment of a loan. The borrower has use of the property, and the lien is removed when the obligation is fully paid. A mortgage normally involves real estate.

Municipal Bond

these bonds are issued by state or local government entities, such as cities and counties. Interest earned is generally tax-free.

Mutual Fund

a fund operated by an INVESTMENT COMPANY that raises money from shareholders and invests it in stocks, bonds, options, futures, currencies, or money market securities. These funds offer investors the advantages of diversification and professional management.

N

NASDAQ (The National Association of Securities Dealers Automated Quotations System)

a computerized system that lists price quotes for many over-the-counter stocks, as well as some other stocks.

Negative Cash Flow

situation in which a business spends more cash than it receives through earnings or other transactions in an accounting period.

Negative working capital

situation in which the current liabilities of a firm exceed its current assets. To remedy a negative working capital position, a firm has these alternatives: (1) it can convert a long-term asset into a current asset-for example, by selling a piece of equipment or a building, by liquidating a long-term investment, or by renegotiating a long-term loan receivable; (2) it can convert short-term liabilities into long-term liabilities- for example, by negotiating the substitution of a current account payable with a long-term note payable; (3) it can borrow long term; (4) it can obtain additional equity through a stock issue or other sources of paid-in capital; (5) it can retain or "plough back" profits.

Net

the figure remaining after all relevant deductions have been made from the gross amount. For example: net sales are equal to gross sales minus discounts, returns, and allowances; net profit is gross profit less operating (sales, general, and administrative) expenses; net worth is assets (worth) less liabilities.

Net Current Asset

difference between current assets and current liabilities; another name for WORKING CAPITAL.

Net Income/profit

in general terms it is the sum remaining after all expenses have been met or deducted;

synonymous with net earnings and with net profit or net loss (depending on whether the figure is positive or negative).
For business terms it is difference between total sales and total costs and expenses. Total costs comprise cost of goods sold including depreciation; total expenses comprise selling, general, and administrative expenses, plus INCOME DEDUCTIONS. Net income is usually specified as to whether it is before income taxes or after income taxes. Net income after taxes is the bottom line referred to in popular vernacular. It is out of this figure that dividends are normally paid.

Net Lease

financial lease stipulating that the user (rather than the owner) of the leased property shall pay all maintenance costs, taxes, insurance, and other expenses. Many real estate and oil and gas limited partnerships are structured as net leases with ESCALATOR CLAUSES, to provide limited partners with both depreciation tax benefits and appreciation of investment, minus cash expenses.

Net proceeds

amount (usually cash) received from the sale or disposition of property, from a loan, or from the sale or issuance of securities after deduction of all costs incurred in the transaction.

Net sales

gross sales less returns and allowances, freight out, and cash discounts allowed.

Net worth

equity. Fair market value of total assets minus total liabilities.

NICS

acronym for newly industrialized countries, which are countries that have rapidly developing industrial economies.

No-load fund

mutual fund that does not charge a commission.

Nominal Dollars

dollars unadjusted for inflation. Most financial statements are reported in nominal dollars.

Nominal rate of interest

the rate of interest unadjusted for inflation. The actual interest rate charged by a bank on a loan is in nominal dollars. This is in contrast to interest rates that have been adjusted for either past or projected inflation, called REAL INTEREST RATES.

Nominal yield

annual dollar amount of income received from a fixed-income security divided by the PAR VALUE of the security and stated as a percentage.

Non-cash charge

items deducted for tax purposes on a firm's income statement, but that require no actual cash outlay. Depreciation, amortization, and depletion charges are the most common noncash charges.

Non-contributory pension plan

pension plan that is totally funded by the employer, and to which employees are not expected to contribute.

Non-current Asset

asset not expected to be converted into cash, sold, or exchanged within the normal operating cycle of the firm, usually one year. Examples of non-current assets include FIXED ASSETS, such as real estate, machinery, and other equipment.

Non-current Liability

liability due after one year. Also known as long-term liability

Non-performing asset

an asset not effectual in the production of income. In banking, commercial loans 90 days past due and consumer loans 180 days past due are classified as non-performing.

Non-registered charge

one- time expense or WRITE-OFF appearing in a company's financial statement; also called extraordinary charge. Nonrecurring charges would include, for example, a major fire or theft, the write-off of a division, and the effect of a change in accounting procedure.

Non-registered fund

a fund that because it is not registered with Revenue Canada cannot be deducted from income tax, i.e., it is not eligible as an RRSP. Such funds are usually used for investments of disposable personal income and may be considered by individuals who have already placed in their RRSPs the limit allowed them by Revenue Canada for that particular year.

Non-revolving line of credit

a contractual agreement between a bank and its customer, usually a company, established for a one-time specific purpose with the related advance carried on a strictly reducing basis. The credit line, while being paid off, can be run back up as cash is needed.

No-par item

Cheque collected at its face value less drawee bank charges.

Non-profit corporations

sometimes referred to as simply non-profits. Organizations that don't exist to make a profit. Usually, the groups are dedicated to charitable or educational efforts; they are, therefore, exempted from income taxes.

Not sufficient funds cheque (NSF)

a bank cheque written against an inadequate balance. Also called insufficient-funds cheque and informally, a bounced cheque.

Note

an unsecured written promise to pay a specified amount to a certain entity on demand or on a specified date.

Note receivable

what you put on the books if you're owed money by someone who has signed a promissory note, which states you will be paid a certain amount by a certain time.

O

Oligopoly

a small group of large suppliers dominate a market, providing similar versions of a product, like cars.

On account

in general usage it means in partial payment of an obligation. In finance it means on credit terms. The term applies to a relationship between a seller and a buyer wherein payment is expected sometime after delivery and the obligation is not documented by a NOTE. Synonymous with open account.

Open-end lease

a lease agreement providing for an additional payment after the property is returned to the lessor, to adjust for any change in the value of the property.

Operating Budget

an estimate of operating revenues and expenses for a given period.

Operating expenses

the costs of doing business, i.e., selling and general administrative costs, deducted from gross profit to arrive at a net income before taxes.

Operating Lease

also called a service lease it is a type of lease, normally involving equipment, whereby the contract is written for considerably less than the life of the equipment and the lessor handles all maintenance and servicing. Operating leases are the opposite of capital leases, where the lessee acquires essentially all the economic benefits and risks of ownership. Common examples of equipment financed with operating leases are office copiers, computers, automobiles, and trucks.

Operating loan

the funds required to look after the day-to-day operating requirements of a business. This type of loan may be secured by receivables, inventory, or fixed and other assets, or other collateral.

Operating profit (or loss)

the difference between the revenues of a business and the related costs and expenses, excluding income derived from sources other than its regular activities and before income deductions.

Operating Ratio

any of a group of ratios that measure a firm's operating efficiency and effectiveness by relating various income and expense figures from the profit and loss statement to each other and to balance sheet figures. Such ratios are most revealing when compared with those of prior periods and with industry averages.

Optimum Capacity

level of output of manufacturing operations that produces the lowest cost per unit.

Option

the right to buy or sell property that is granted in exchange for an agreed upon sum. If the right is not exercised after a specified period, the option expires and the option buyer forfeits the money.

Organizational Chart

a chart showing the inter-relationships of positions within an organization in terms of authority and responsibility. There are basically three patterns of organization: line organization, in which a single manager has final authority over a group of foremen or middle management supervisors; functional organization, in which a general manager supervises a number of managers identified by function; and line and staff organization, which is a combination of line and functional organization, with specialists in particular functions holding staff positions where they advise line officers concerned with actual production.

Original cost

1. In accounting, all costs associated with the acquisition of an asset. 2. In public utilities accounting, the acquisition cost incurred by the entity that first devotes a property to public use; normally, the utility company's cost for the property. It is used to establish the rate to be charged customers in order to provide the utility company with a FAIR RATE OF RETURN on capital.

Other income

sometimes referred to as other revenue. It is a heading on a profit and loss statement for income from activities not in the normal course of business.

Overdraft

an extension of credit by a lending institution.

Overhead

1. Costs of a business that are not directly associated with the production or sale of goods or services. 2. Sometimes used in a more limited sense, as in manufacturing or factory overhead.

Owner's Security

PAID-IN CAPITAL, donated capital, and RETAINED EARNINGS less the LIABILITIES of a corporation. In a proprietorship or partnership, equity is each owner's original investment, plus any earnings and minus any withdrawals. In a corporation, equity is the sum of contributors, plus earnings retained after paying dividends.

P

Parent company

a company that owns or controls subsidiaries through the ownership of voting stock. A parent company is usually an operating company in its own right. Where the Parent company has no business of its own, the term HOLDING COMPANY is often preferred.

Partnership

a contract between two or more people in a joint business who agree to pool their funds and talent and share in the profits and losses of the enterprise. Those who are responsible for the day-to-day management of the partnership's activities, whose individual acts are binding on the other partners, and who are personally liable for the partnership's total liabilities are called general partners. Those who contribute only money and are not involved in management decisions are called limited partners; their liability is limited to their investment.

Partnership Agreement

a written agreement among partners specifying the conduct of the partnership, including the division of earnings, procedures for dividing up assets if the partnership is dissolved, and steps to be followed when a partner becomes disabled or dies.

Patent

gives a company or individual exclusive right to use a process or produce or sell a particular product for a designated period of time. Normally, in Canada this is for 17 years.

Payables

trade or liabilities evidenced by an invoice or other form of documentation.

Payee

a person receiving payment through a cheque, bill, money order, promissory note, credit card, cash, or other payment method.

Payment in kind

the payment for goods and services made in the form of other goods and services, not cash or other forms of money. Usually, payment in kind is made when the payee returns with the same kind of good or service. For example, if someone's tire blows out, the payee will buy another tire to replace the first one. In the securities world, PAYMENT IN KIND SECURITIES pay bondholders in more bonds instead of cash interest. Payment in kind is different from BARTER because the payor gets the same goods and services in return, not other goods or services of equivalent value, as is the case in barter.

Payor

a person making a payment to a PAYEE through a cheque, bill, money order, promissory note, cash, credit card, or other form of payment.

Payout ratio

the percentage of a firm's profits that is paid out to shareholders in the form of dividends. Young, fast-growing companies reinvest most of their earnings in their business, and usually do not pay dividends.

Penalty Clause

an important clause found in contracts, borrowing agreements, and savings instruments, which outlines the penalties in the event a contract, is not kept, a loan payment is late, or a withdrawal is made prematurely.

Per Capita

per person.

Per capital debt

the total bonded debt of a municipality, divided by its population. A more refined version, called net per capita debt, divides the total bonded debt less applicable sinking funds by the total population. When compared with ratios of prior periods it reveals trends in a municipality's debt burden.

Permanent Financing

in the corporate world, long-term financing by means of either debt (bonds or long-term notes) or equity (common or preferred stock).

Perpetual inventory

also called continuous inventory and contrasts with periodic inventory. Perpetual Inventory is an accounting system in which the book inventory is kept in continuous agreement with stock on hand. A daily record is maintained of both the dollar amount and the physical quantity of inventory, and this is reconciled to actual physical counts at short intervals.

Physical verification

the procedure by which an auditor actually inspects the assets of a firm, particularly inventory, to confirm their existence and value, rather than relying on written records.

PIN number
an acronym for personal identification number.

Plant
the assets comprising of land, buildings, machinery, natural resources, furniture and fixtures, and all other equipment permanently employed in a business.

Pledging
the transferring property, such as securities or the CASH SURRENDER VALUE of life insurance, to a lender or creditor as COLLATERAL for an obligation. Pledge and Hypothecate are interchangeable, as they do not involve transfer of title. ASSIGN, although commonly used interchangeably with pledge and hypothecate, implies transfer of ownership or of the right to transfer ownership at a later date.

Plough back
to reinvest a company's earnings in the business rather than pay out those profits as dividends. Usually smaller, fast-growing companies plough back most or all earnings in their businesses, whereas more established firms pay out more of their profits as dividends.

Policyholder
Owner of an INSURANCE contract (policy).

Poison pill
companies resort to poison pills when someone is trying to take them over. To discourage the suitor, the takeover prospect takes on a heap of new debt or does something else to make the stock less attractive.

Post
an accounting term used to transfer from a journal of original entry detailed financial data, in the chronological order in which it was generated, into a ledger book. Banks post checking account deposits and withdrawals in a ledger, then summarize these transactions on the monthly bank statement.

Practice Insurance
general and liability insurance to protect the physical property and finances of a legal, medical, or dental practice.

Pre tax earnings or profits
net income (earnings or profits) before federal income taxes.

Preauthorized Cheque (PAC)
pre-printed, normally unsigned, instrument used to transfer funds from an individual to a corporation on a regular bases, with the individual's authorization. The individual sends a cheque marked "void,: and the corporation then automatically receives the funds on a preset date.

Preferred Stock
a class of CAPITAL STOCK that pays dividends at a specified rate and that has preference over common stock in the payment of dividends and the liquidation of assets. Preferred stock does not ordinarily carry voting rights, but it pays a higher level of investment income and retains a higher level of market stability than common stock.

Premium
in general: extra payment usually made as an incentive.

Prepaid Expense
an expense that has been paid in advance of use of the good or service it has purchased. Insurance, fuel, oil, and telephone service may all be classed as prepaid expenses.

Prepaid Interest
asset account representing interest paid in advance. The interest is expensed, that is, charged to the borrower's profit and loss statement (P&L), as it is earned by the lender. Synonymous with UNEARNED INTEREST, which is the preferred term when DISCOUNT is involved.

Prepayment

paying a debt obligation before it comes due. In accounting terms it is an expenditure for a future benefit, which is recorded in a BALANCE SHEET asset account called a DEFERRED CHARGE, then written off in the period when the benefit is enjoyed. For example, prepaid rent is first recorded as an asset, then charged to expense as the rent becomes due on a monthly basis.

Prepayment Penalty

the fee paid by a borrower to a bank when a loan or mortgage that does not have a prepayment clause is repaid before its scheduled maturity.

Price Indexes

indices that track levels of prices and rates of inflation. The most common price index published by the government is the CONSUMER PRICE INDEX (CPI).

Price support

government programs which set a price floor designed to aid farmers or other producers of goods. For instance, the government sets a minimum price for sugar that it guarantees to sugar growers. If the market price drops below that level, the government makes up the difference.

Prime Rate

is the base rate that banks use in pricing commercial loans to their best and most creditworthy customers. The rate is determined by the Bank of Canada's decision to raise or lower prevailing interest rates for short-term borrowing.

Principal

in general, a major party to a transaction, acting as either a buyer or a seller. A principal buys and sells for his or her own account and risk. It can also mean an owner of a privately held business. In the Banking and Financing sector, the face amount of a debt instrument or deposit on which interest is either owed or earned. Or it can be the balance of a debt, separate from interest.

Principal Amount

the FACE VALUE of an obligation (such as a bond or a loan) that must be repaid at maturity, as separate from the INTEREST.

Pro forma

Latin for "as a matter of form"; refers to a presentation of data, such as a BALANCE SHEET or INCOME STATEMENT, where certain amounts are hypothetical. For example, a pro forma balance sheet might show a debt issue that has been proposed but has not yet been consummated.

Pro rata

Latin for "according to the rate"; a method of proportionate allocation. For example, a pro rata property tax rebate might be divided proportionately (prorated) among taxpayers based on their original assessments, so that each gets the same percentage.

Probate

judicial process whereby the will of a deceased person is presented to a court and an EXECUTOR or ADMINISTRATOR is appointed to carry out the will'= instructions. Every province except Quebec requires probate of a will and each has different probate fees.

Proceeds

1. funds given to a borrower after all costs and fees are deducted. 2. money received by the seller of an asset after commissions are deducted.

Productivity

in labour and other areas of economics, the amount of output per unit of input, for example, the quantity of a product produced per hour of labour.

Professional liability

money paid to an insurance company in exchange for benefits. Such insurance affords protection against claims arising from practicing a profession, e.g., claims of negligence.

Profit and loss statement (P&L)

can also be called also called INCOME STATEMENT, operating statement, statement of profit and loss, income and expense statement. It is a summary of the revenues, costs, and expenses of a company during an accounting period. Revenue less costs of goods is the gross profit. From this are deducted itemized selling and administrative costs, to give a profit before taxes. What is left after deduction of taxes is "net" profit. Together with the BALANCE SHEET as of the end of the accounting period, it constitutes a company's financial statement.

Profit-sharing plan

the company gives employees bonuses tied to the amount of profit it makes.

Promissory note

often called a note, it is a written promise committing the maker to pay the payee a specified sum of money either on demand or at a fixed or determinable future date, with or without interest. Instruments meeting these criteria are NEGOTIABLE.

Property inventory

personal finance term meaning a list of PERSONAL PROPERTY with cost and market values. A property inventory, which should be accompanied by photographs, is used to substantiate insurance claims and tax losses.

Property tax

tax assessed on property such as real estate. The tax is determined by several factors, including the use of the land (residential, commercial, or industrial), the assessed valuation of the property, and the tax rate, expressed in MILLS. Property taxes are usually assessed by county and local governments, school districts, and other special authorities such as for water and sewer service. Property taxes are usually deductible on federal income tax returns. If a mortgage lender requires that it pay all property taxes, borrowers must remit their property taxes as part of their monthly mortgage payments and the lender keeps the money in trust until property taxes are due.

Proprietorship

unincorporated business owned by a single person. The individual proprietor has the right to all the profits from the business and also has responsibility for all the firm's liabilities.

Protectionism

practice of protecting domestic goods and service industries from foreign competition with tariff and non-tariff barriers. Protectionism causes higher prices for consumers because domestic producers are not exposed to foreign competition, and can therefore keep prices high. But domestic exporters also may suffer, because foreign countries tend to retaliate against protectionism with tariffs and barriers of their own.

Provision for income taxes

item on a company's profit and loss statement (P & L) representing its estimated income tax liability for the year. Although taxes are actually paid according to a timetable determined by Revenue Canada and a certain portion of the liability may be accrued, the provision gives an indication of the company's effective tax rate, which analysts compare to other companies as one measure of effective management and profitability. EARNINGS BEFORE TAXES is the net earnings figure before provision for income taxes.

Proxy

in general: a person authorized to act or speak for another.
in business: 1. Written power of attorney given by shareholders of a corporation, authorizing a specific vote on their behalf at corporate meetings. Such proxies normally pertain to election of the board of directors or to various resolutions submitted for shareholders= approval. 2. Person authorized to vote on behalf of a stockholder of a corporation.

Public company

company that offers stock for sale to the general public.

Public ownership

government: government ownership and operation of a productive facility for the purpose of providing some good or service to citizens. The government supplies the capital, controls management, sets prices, and generally absorbs all risks and reaps all profits B similar to a private enterprise. When public ownership displaces private ownership in a particular instance, it is called nationalization.

Purpose acquisition

accounting method used in a business MERGER whereby the purchasing company treats the acquired company as an investment and adds the acquired company's assets to its own at their fair market value. Any premium paid over and above the FAIR MARKET VALUE of the acquired assets is reflected as GOODWILL on the buyer's BALANCE SHEET and must be written off against future earnings. Until 1993, goodwill amortization was not deductible for tax purposes, so the reduction of reported future earnings was a disadvantage of this method of merger accounting as compared with the alternative POOLING OF INTERESTS method. The purchase acquisition method is mandatory unless all the criteria for a pooling of interests combination are met.

Purchase loan

in consumer credit, a loan made at a rate of interest to finance a purchase.

Purchase order

written authorization to a vendor to deliver specified goods or services at a stipulated price. Once accepted by the supplier, the purchase order becomes a legally binding purchase CONTRACT.

Purchasing power

the value of money as measured by the goods and services it can buy.

Purchasing power of the dollar

the measure of the amount of goods and services that a dollar can buy in a particular market, as compared with prior periods, assuming always an INFLATION or a DEFLATION factor and using an index of consumer prices.

Put

an option to sell a certain amount of stock at a specific price during a specific time.

Q

Quality Control

the process of assuring that products are made to consistently high standards of quality.

Quality of Earnings

phrase describing a corporation’s earnings that are attributable to increased sales and cost controls, as distinguished from artificial profits created by inflationary values in inventories or other assets.

Quantitative analysis

analysis dealing with measurable factors as distinguished from such qualitative considerations as the character of management or the state of employee morale.

Quarterly

every three months (one quarter of a year).

Quick assets

cash, marketable securities, and accounts receivable.

Quick ratio

cash, MARKETABLE SECURITIES, and ACCOUNTS RECEIVABLE divided by current liabilities. By excluding inventory, this key LIQUIDITY ratio focuses on the firm’s more LIQUID ASSETS, and helps answer the question "If sales stopped, could this firm meet its current obligations with the readily convertible assets on hand?" Assuming there is nothing happening to slow or prevent collections, a quick ratio of 1 to 1 or better is usually satisfactory. Also called acid-test ratio, quick asset ratio.

Quid pro quo

from the Latin, meaning "something for something." By mutual agreement, one party provides a good or service for which he or she gets another good or service in return.

Quorum

minimum number of people who must be present at a meeting in order to make certain decisions go into effect. A quorum may be required at a board of directors, committee, shareholder, legislative, or other meeting for any decisions to have legal standing. A quorum may be achieved by providing a PROXY as well as appearance in person.

Quotation

price estimate on a commercial project or transaction.

R

Raw land

property in its natural state, prior to grading, construction, and subdividing. The property has no sewers, electricity, streets, buildings, water service, telephone service, or other amenities. Investors in raw land hope that the land's value will rise in the future if it is developed. While they wait, however, they must pay property taxes on the land's value.

Raw material

unfinished goods used in the manufacture of a product. Raw materials are carried on a company's balance sheet as inventory in the current assets section.

Real gain or loss

gain or loss adjusted for INFLATION.

Real income

income of an individual, group, or country adjusted for changes in PURCHASING POWER caused by inflation. A price index is used to determine the difference between the purchasing power of a dollar in a base year and the purchasing power now. The resulting percentage factor, applied to total income, yields the value of that income in constant dollars, termed real income.

Real interest rate

current interest rate minus inflation rate. The real interest rate may be calculated by comparing interest rates with present or, more frequently, with predicted inflation rates. The real interest rate gives investors in bonds and other fixed-rate instruments a way to see whether their interest will allow them to keep up with or beat the erosion in dollar values caused by inflation. With a bond yielding 10% and inflation of 3%, for instance, the real interest rate of 7% would bring a return high enough to beat inflation. If inflation were at 15%, however, the investor would fall behind as prices rise.

Real Property

land and all property attached to the land, such as houses, trees, fences, and all improvements.

Receiver

court-appointed person who takes possession of, but not title to, the assets and affairs of a business or estate that is in a form of BANKRUPTCY called receivership or is enmeshed in a legal dispute. The receiver collects rents and other income and generally manages the affairs of the entity for the benefit of its owners and creditors until a disposition is made by the court.

Recession

a time when business is slow, people lose jobs and sitting presidents worry about their re-election prospects as people tend to blame them for economic woes. Technically speaking, six months or more of a decline in the gross domestic product.

Reclamation

the restoration of an unproductive asset to productivity. For example using landfill to make a swamp viable again.

Reconciliation Service

mainly of use to companies with huge volume. A service provided by the bank that batches, sorts, and lists customers' cheques and provides detailed account reconciliation reports.

Recovery

in finance, (1) absorption of cost through the allocation of DEPRECIATION; (2) collection of an ACCOUNT RECEIVABLE that had been written off as a bad debt; (3) residual cost, or salvage value, of a fixed asset after all allowable depreciation.

Refinancing

the extending of the maturity date, amount of existing debt, payment schedule or interest rate of a current debt.

Registered Company

company that has filed a REGISTRATION STATEMENT with the Ontario, Alberta, Quebec, or B.C. securities commissions in connection with a PUBLIC OFFERING of securities and must therefore comply with the commission's DISCLOSURE requirements. In the United States, such a company files registration with the U.S. Securities and Exchange Commission.

Registered Fund

a fund normally registered with and regulated by Revenue Canada. i.e. Registered Retirement Savings Plan (RRSP).

Registered Retirement Savings Plan (RRSP)

a plan to which tax deductible contributions are made to accumulate a retirement fund.

Registered Tax Deferral Savings Plan

a government-approved savings plans (such as registered pension plans, registered retirement savings plans, and registered retirement income funds) in which funds contributed by individuals are tax-deductible within certain limits, and investment earnings accumulate in the plans tax-free until de-registration or maturity of the plans.

Registration

under the Securities Act, you must register new securities in each province in which they will be offered for sale. This usually involves filing a prospectus, and must be done before a public offering may be made of the new securities or of outstanding securities by controlling stockholders.

Replacement Cost

cost to replace an asset with another of similar utility at today's prices. Also called current cost and replacement value.

Replacement cost accounting

accounting method allowing additional DEPRECIATION on part of the difference between the original cost and current replacement cost of a depreciable asset.

Rescheduled loan

bank loans that, as an alternative to DEFAULT, were restructured, usually by lengthening the maturity to make it easier for the borrower to meet repayment terms.

Rescind

to cancel a contract agreement. Depending on the province, a consumer is allowed from 3 to 7 business days as a cooling-off period on most conditional sales contracts.

Research And Development (R&D)

scientific and marketing evolution of a new product or service. Once such a product has been created in a laboratory or other research setting, marketing specialists attempt to define the market for the product. Then, steps are taken to manufacture the product to meet the needs of the market. Research and development spending is often listed as a separate item in a company's financial statements. In industries such as high-technology and pharmaceuticals, R&D spending is quite high, since products are outdated or attract competition quickly. Investors looking for companies in such fast-changing fields check on R&D spending as a percentage of sales because they consider this an important indicator of the company's prospects.

RESEARCH AND DEVELOPMENT LIMITED PARTNERSHIP

usually offered through brokerage firms, it is a plan whose investors put up money to finance new product research and development. In return, the investors get a percentage, if any, of the product's profits, together with such benefits as tax credits and loss write-offs. R&D partnerships may be offered publicly or privately.

Reserve

1. segregation of RETAINED EARNINGS to provide for such payouts as dividends, contingencies, improvements, or retirement of preferred stock. 2. VALUATION RESERVE, also called ALLOWANCE, for DEPRECIATION, BAD DEBT losses, shrinkage of receivables because of discounts taken, and other provisions created by charges to the PROFIT AND LOSS STATEMENT. 3. hidden reserves, represented by understatements of BALANCE SHEET values. 4. deposit maintained by a commercial bank in a federal reserve bank to meet the Fed's reserve requirement.

Reserve Requirements

a rule mandating the financial assets that member banks must keep in the form of cash and other liquid assets as a percentage of demand deposits and time deposits.

Residual Value

1. realizable value of a FIXED ASSET after costs associated with the sale. 2. amount remaining after all allowable DEPRECIATION charges have been subtracted from the original cost of a depreciable asset. 3. scrap value, which is the value to a junk dealer. Also called salvage value.

Resolution

1. in general, expression of desire or intent. 2. formal document representing an action of a corporation's Board of Directors - perhaps a directive to management, such as in the declaration of a dividend, or a corporate expression of sentiment, such as acknowledging the services of a retiring officer. A corporate resolution, which defines the authority and powers of individual officers, is a document given to a bank. 3. legal order or contract by a government entity - called a bond resolution - authorizing a bond issue and spelling out the rights of bondholders and the obligations of the issuer.

Retail price

the price charged to retail customers for goods and services. Retailers buy goods from wholesalers, and increase the price to cover their costs, plus a profit. Manufacturers list suggested retail prices for their products; retailers may adhere to these prices or offer discounts from them.

Retail sales

the sale of goods to the consumer by a merchant who buys them at wholesale prices. Retail sales make up more than half the total level of demand in the economy and an increase in retail sales usually means an increase in industrial production and investment.

Retained Earnings

net profits kept to accumulate in a business after dividends are paid. Also called undistributed profits or earned surplus.

Retained earnings statement

the reconciliation of the beginning and ending balances in the RETAINED EARNINGS account on a company's BALANCE SHEET. It breaks down changes affecting the account, such as profits or losses from operations, dividends declared, and any other items charged or credited to retained earnings. It may also be called statement of changes in earned surplus (or retained income).

Retention rate

the percentage of net earnings available for reinvestment into the company after dividends are paid to stockholders. The retention rate is also the inverse of the dividend payout ratio. If the payout ratio is 25%, the retention rate is 75%.

Return on capital

the distribution of cash resulting from DEPRECIATION tax savings, the sale of a CAPITAL ASSET or of securities in a portfolio, or any other transaction unrelated to RETAINED EARNINGS. Returns of capital are not directly taxable but may result in higher CAPITAL GAINS taxes later on if they reduce the acquisition cost base of the property involved. Also called return of basis.

Return on invested capital

the amount, expressed as a percentage, earned on a company's total capital. Iits common and preferred stock EQUITY plus its long-term FUNDED DEBT, calculated by dividing total capital into earnings after interest, taxes, and dividends. Return on invested capital, usually termed return on investment, or ROI, is a useful means of comparing companies, or corporate divisions, in terms of efficiency of management and viability of product lines.

Return on sales

net pretax profits as a percentage of net sales - a useful measure of overall operational efficiency when compared with prior periods or with other companies in the same line of business.

Revenue neutral

a change in tax legislation that results in no net tax increase to taxpayers or no net increase in government revenue.

Revenue sharing

in the area of limited partnerships: it is the percentage split between the general partner and limited partners of profits, losses, cash distributions, and other income or losses that result from the operation of the partnership.

In the area of taxes: it is the return of tax revenue to a unit of government by a larger unit, such as from a province to one of its municipalities.

Revolving credit

in commercial banking it is a contractual agreement between a bank and its customer, usually a company, whereby the bank agrees to make loans up to a specified maximum for a specified period, usually a year or more. As the borrower repays a portion of the loan, an amount equal to the repayment can be borrowed again under the terms of the agreement. In addition to interest borne by notes, the bank charges a fee for the commitment to hold the funds available. A compensating balance may be required in addition.
In consumer banking the loan account requiring monthly payments of less than the full amount due, and the balance carried forward is subject to a financial charge. Also, an arrangement in which borrowings are permitted up to a specified limit and for a specified period, usually a year, with a fee charged for the commitment. Also called open-end credit or revolving line of credit.

Right of First Refusal

the right of someone to be offered a right before it is offered to others.

Right of Redemption

also known as equity of redemption, the right to recover property transferred by a MORTGAGE or other LIEN by paying off the debt either before or after foreclosure.

Risk

business risk: an economic or operating risk reflected in the variability of a firm's earnings.
inflation risk: chance that the value of assets or of income will be eroded as inflation shrinks the value of a country's currency.
interest rate risk: possibility that a fixed-rate debt instrument will decline in value as a result of a rise in interest rates.
inventory risk: possibility that price changes, obsolescence, or other factors will shrink the value of INVENTORY.
repayment (credit) risk: chance that a borrower or trade debtor will not repay an obligation as promised. Risk of principal: chance that invested capital will drop in value.

Risk-free return

the yield on a risk-free investment. The 90-day Treasury bill is considered a risk-less investment because it is a direct obligation of the Canadian government and its term is short enough to minimize the risks of inflation and market interest rate changes.

Rollover

1. Movement of funds from one investment to another. 2. Term often used by banks when they allow a borrower to delay making a PRINCIPAL payment on a loan.

Royalty

the payment to the holder for the right to use property such as a patent, copyrighted material, or natural resources. Royalties are set in advance as a percentage of income arising from the commercialization of the owner's rights or property.

Rule of 72

formula for approximating the time it will take for a given amount of money to double at a given COMPOUND INTEREST rate. The formula is simply 72 divided by the interest rate. In six years $100 will double at a compound annual rate of 12%, thus: 72 divided by 12 equals 6.

Rule of the 78S

method of computing REBATES of interest on installment loans. It uses the SUM-OF-THE-YEAR'S-DIGITS basis in determining the interest earned by the FINANCE COMPANY for each month of a year, assuming equal monthly payments, and gets its name from the fact that the sum of the digits 1 through 12 is 78. Thus interest is equal to 12/78 of the total annual interest in the first month, 11/78 in the second month, and so on.

S

Salary
the regular wages received by an employee from an employer on a weekly, biweekly, or monthly basis. It may also include employee benefits such as health and life insurance and savings plans. Salary income is taxable by the federal, and provincial government through payroll withholding.

Sale
any exchange of goods or services for money.

Sales tax
a regressive, consumption tax based on a percentage of the selling price of goods and services. The retail buyer pays the sales tax to the retailer, who passes it on to the sales tax collection agency of the government. For an item costing $1000 in a province with an 8% sales tax, the buyer pays $80 in sales tax, for a total of $1080. Sales taxes are not deductible.

Save harmless
also called an indemnity clause. A clause in a contract in which one party to a transaction tries to protect itself from a past or subsequent liability caused, usually unwittingly, by the other party.

Scale
in labour it is the wage rate for specific types of employees.

Seasonality
variations in business or economic activity that recur with regularity as the result of changes in climate, holidays, and vacations. It is often necessary to make allowances for seasonality when interpreting or projecting financial or economic data.

Second mortgage lending

the advancing funds to a borrower that are secured by real estate previously pledged in a FIRST MORTGAGE loan. In the case of DEFAULT, the first mortgage has priority of claim over the second. A variation on the second mortgage is the home equity loan, in which the loan may also be in the form of a line of credit, which may be drawn down on by using a cheque or even a credit card.

Secondary boycott

when a union puts the squeeze on, it organizes a boycott of companies that do business with the company the union is battling. The idea is to isolate the company fighting with the union, hurting its business by cutting off supplies or buyers.

Secondary market

where securities are traded after their initial issuance. Money from trades goes to dealers and sellers, not to the company that originally issued the security. Secondary markets include exchanges, as well as virtual marketplacesBthe over-the-counter markets of computer and telephone lines.

Secured bonds

bonds that are backed by collateral or a lien. If the bond issuer defaults, he or she must hand over whatever asset was pledgedBsuch as a houseBso the creditor can recoup the loss on the bond.

Secured debt

debt which is guaranteed by the pledge of assets or other collateral.

Security

the collateral offered by a debtor to a lender to secure a loan called collateral security. If the debt is not repaid, the lender may seize the security and resell it.

Security deposit

the money paid in advance to protect the provider of a product or service against damage or nonpayment by the buyer. For example, landlords require a security deposit of one month's rent when a tenant signs a lease, to cover the possibility that the tenant will move out without paying the last month's rent, or that the tenant will inflict substantial damage on the property while living there.

Seed money
the first contribution toward the financing or capital requirements of a start-up business.

Seller financing
the financing provided by the owner/seller of real estate, who takes back a secured note. The buyer may be unable to qualify for a mortgage from a lending institution, or interest rates may have risen so high that the buyer is unwilling to take on a market-rate loan. In order to sell their property, sellers offer to lend the buyer the money needed, often at a below-market interest rate. The buyer takes full title to the property when the loan is fully repaid. If the buyer defaults on the loan, the seller can repossess the property. Also called creative financing.

Seller's market
a situation in which there is more demand for a security or product than there is available supply. As a result, the prices tend to be rising, and the sellers can set both the prices and the terms of sale. It contrasts with a buyer's market, characterized by excess supply, low prices, and terms suited to the buyer's desires.

Selling short
gamblers love this technique that lets them bet a stock price will drop. It works this way: you borrow stock from your broker and sell it. If the price drops, you buy the shares you owe the broker and return them, pocketing the difference between what you sold them for and what you bought them back for. You're in trouble if the price rises since you still owe the broker his shares.

Set-aside
percentage of a job or project which is set aside for bidding to minority contractors. Set-aside programs are designed to assist minority firms become established more quickly.

Severance pay

also called a termination benefit, it is money paid to an employee who has been laid off by an employer. The size of the termination benefit is based on the length of service and job level of the employee, union contracts, and other factors.

Share

1. unit of equity ownership in a corporation. This ownership is represented by a stock certificate, which names the company and the shareowner. The number of shares a corporation is authorized to issue is detailed in its corporate charter. Corporations usually do not issue the full number of authorized shares.
2. interest, normally represented by a certificate, in a general or LIMITED PARTNERSHIP.

Share profit

calculated by dividing the profit after dividend rights of preferred shares by the average number of common shares outstanding. This calculation may be done either before or after taking any extraordinary items into account. If the company had a loss instead of a profit, the same calculations would result in a share loss before or after extraordinary items.

Share purchase plan

fringe benefits occasionally offered to employees that allow them to purchase their company's shares at a discount or on a matching basis, with the company absorbing part of the cost.

Share repurchase plan

program by which a corporation buys back its own shares in the open market. It is usually done when shares are UNDERVALUED. Since it reduces the number of shares outstanding and thus increases EARNINGS PER SHARE, it tends to elevate the market value of the remaining shares held by stockholders.

Shareholder

owner of one or more shares of STOCK in a corporation. A common shareholder is normally entitled to four basic rights of ownership: (1) claim on a share of the company's undivided assets in proportion to number of shares held; (2) proportionate voting power in the election of Directors and other business conducted at shareholder meetings or by PROXY; (3) DIVIDENDS when earned and declared by the Board of Directors; and (4) PREEMPTIVE RIGHT to subscribe to additional stock offerings before they are available to the general public except when overruled by the ARTICLES OF INCORPORATION or in special circumstances, such as where stock is issued to effect a merger.

Shareholder’s equity

also called stockholder’s equity, equity and net worth. It is calculated total ASSETS minus total LIABILITIES of a corporation. Equity divided by number of shares outstanding gives equity per share.

Shares authorized

the number of shares of stock provided for in the ARTICLES OF INCORPORATION of a company. This figure is ordinarily indicated in the capital accounts section of a company's BALANCE SHEET and is usually well in excess of the shares ISSUED AND OUTSTANDING. A corporation cannot legally issue more shares than authorized. The number of authorized shares can be changed only by amendment to the corporate charter, with the approval of the shareholders. The most common reason for increasing authorized shares in a public company is to accommodate a stock SPLIT.

Shell corporation

a company that is incorporated but has no significant assets or operations. Such corporations may be formed to obtain financing prior to starting operations, in which case an investment in them is highly risky. The term also can be used to describe corporations set up by fraudulent operators as fronts to conceal tax evasion schemes.

Short term

in accounting used to describe assets expected to be converted into cash within the normal operating cycle (usually one year), or liabilities coming due in one year or less.

Shortfall

the amount by which a financial objective has not been met.

Short-term debt

all debt obligations coming due within one year; shown on a balance sheet as current liabilities.

Shrinkage

difference between the amount of inventory recorded in a firm's books and the actual amount of inventory on hand. Shrinkage may occur because of theft, deterioration, loss, clerical error, and other factors.

Signature guarantee

the written confirmation by a financial institution that a customer's signature is valid.

Signature loan

also know as a good-faith loan or a character loan. It is an unsecured loan requiring only the borrower's signature on a loan application. No collateral is required.

Significant influence

holding of a large enough equity stake in a corporation to require accounting for it in financial statements. Usually, a company that holds at least 20% of the voting stock in another company is considered a holder of significant influence.

Silent partner

1. limited partner, such as real estate and oil and gas limited partnerships, in which CASH FLOW and tax benefits are passed directly through to shareholders. Such partners are called silent because, unlike general partners, they have no direct role in management and no liability beyond their individual investment.
2. general partner in a business who has no role in management but represents a sharing of the investment and liability. Silent partners of this type are often found in family businesses, where the intent is to distribute tax liability.

Simple interest

an interest calculation based only on the original principal amount.

Simple rate of return

the rate of return that results from dividing the income and capital gains from an investment by the amount of capital invested.

Small business deduction

a federal tax credit available to relatively small Canadian-controlled private corporations. It serves to reduce the basic federal corporate tax rate of 46% to 25% on the first $200,000 of active business income of eligible corporations. It can be as low as 18% if the province in which the business operates has a tax holiday in the first 3 years after startup. A tax holiday means that no taxes are payable for up to 3 years as an incentive to start a business.

Social responsibility

a principle that businesses should actively contribute to the welfare of society and not only maximize profits.

Solvency

State of being able to meet maturing obligations as they come due.

Spin-off

to form of corporate DIVESTITURE that results in a subsidiary or division becoming an independent company. In a traditional spin-off, shares in the new entity are distributed to the parent corporation's shareholders of record on a PRO RATA basis. Spin-offs can also be accomplished through a LEVERAGED BUYOUT by the subsidiary or division's management.

Spreadsheet

ledger sheet on which a company's financial statements, such as BALANCE SHEETS, INCOME STATEMENTS, and sales reports, are laid out in columns and rows.

Squeeze

also called a credit crunch. A tight money period when loan money is scarce and interest rates are high, making borrowing difficult and expensive.

Stabilization

in currency terminology, it is the buying and selling of a country's own currency to protect its exchange value. It is sometimes called pegging.

In economics, it is the leveling out of the business cycle, unemployment, and prices through fiscal and monetary policies.

Staggered board of directors

the board of directors of a company in which a portion of the directors are elected each year, instead of all at once. Used to thwart unfriendly TAKEOVER attempts, since potential acquirers would have to wait a longer time before they could take control of a company's board through the normal voting procedure. Normally, all directors are elected at the annual meeting.

Standard cost

it is an estimate, based on engineering and accounting studies, of what costs of production should be, assuming normal operating conditions. Standard costs differ from budgeted costs, which are forecasts based on expectations. Variances between standard costs and actual costs measure productive efficiency and are used in cost control.

Standard Industrial Classification (SIC)

a federally designed standard numbering system identifying companies by industry and providing other information. It is widely used by market researchers, securities analysts, and others. Computerized data bases frequently make use of this classification system.

Standard of living

degree of prosperity in a nation, as measured by income levels, quality of housing and food, medical care, educational opportunities, transportation, communications, and other measures. The standard of living in different countries is frequently compared based on annual per capita income. On an individual level, the standard of living is a measure of the quality of life in such areas as housing, food, education, clothing, transportation, and employment opportunities.

Stated interest rate

the rate paid on savings instruments, such as savings accounts. The stated interest rate does not take into account any compounding of interest.

Stated value

the assigned value given to a corporation's stock for accounting purposes in lieu of par value. The stated value of the stock has no relation to its market price. It is, however, the amount per share that is credited to the CAPITAL STOCK account for each share outstanding and is therefore the legal capital of the corporation.

Statement

a summary of the transactions that occurred over a specified period of time.

Statement of cash flows

the analysis of cash flow is included as part of the financial statements in annual reports of publicly held companies. The statement shows how changes in balance sheet and income accounts affected cash and cash equivalents and breaks the analysis down according to operating, investing, and financing activities. As an analytical tool, the statement of cash flows reveals healthy or unhealthy trends and makes it possible to predict future cash requirements. It also shows how actual cash flow measured up to estimates and permits comparisons with other companies.

Statement of changes in financial position

a financial statement that provides information as to how a company generated and spent its cash during the year. It assists users in evaluating the company's ability to generate cash internally, repay debts, reinvest, and pay dividends to shareholders.

Statement of condition

in banking a sworn accounting of a bank's resources, liabilities, and capital accounts as of a certain date, submitted in response to periodic "calls" by bank regulatory authorities.
In finance, it is the summary of the status of assets, liabilities, and equity of a person or a business organization as of a certain date.

Statute of limitations

a statute describing the limitations on how many years can pass before the right to sue for a wrongful action is given up. For example, Revenue Canada has up to 6 years to assess back taxes from the time the return is filed, unless tax fraud is charged.

Statutory holidays

federally, provincially, or municipally declared holidays, for example, Christmas and

Thanksgiving. In some communities, special statutory holidays are allowed to accommodate individuals whose religious beliefs are other than Christian.

Statutory merger

a legal combination of two or more corporations in which only one survives as a LEGAL ENTITY. It differs from statutory consolidation, in which all the companies in a combination cease to exist as legal entities and a new corporate entity is created.

Statutory voting

a one-share, one-vote rule that governs voting procedures in most corporations. Shareholders may cast one vote per share either for or against each nominee for the board of directors, but may not give more than one vote to one nominee. The result of statutory voting is that, in effect, those who control over 50% of the shares control the company by ensuring that the majority of the board will represent their interests.

Stock

1. ownership of a CORPORATION represented by shares that are a claim on the corporation's earnings and assets. COMMON STOCK usually entitles the shareholder to vote in the election of directors and other matters taken up at shareholder meetings or by proxy. PREFERRED STOCK generally does not confer voting rights but it has a prior claim on assets and earnings - dividends must be paid on preferred stock before any can be paid on common stock. A corporation can authorize additional classes of stock, each with its own set of contractual rights.
2. inventories of accumulated goods in manufacturing and retailing businesses.

Stockbroker

a person in charge of a client’s stock trades. If the stock is traded on an exchange, the broker relays buy and sell orders to representatives on the exchange floor. Full-service brokers give advice on which stocks to buy; discount brokers generally charge less, but usually don't offer advice.

Stock buyback

a corporation's purchase of its own outstanding stock. A buyback may be financed by borrowings, sale of assets, or operating cash flow. Its purpose is commonly to increase

EARNINGS PER SHARE and thus the market price, and often to discourage a takeover.

Stock certificate
the documentation of a shareholder's ownership in a corporation. Usually stock certificates are engraved on heavy paper to deter forgery and indicate the number of shares owned by an individual, their par value (if any), the class of stock (for example, common or preferred), and attendant voting rights.

Stock dividend
the payment of a corporate dividend in the form of stock rather than cash.

Stock insurance companies
an insurance company owned by stockholders.

Stock market indicators
indexes of stock-market performance, including the S&P 500 and the Dow Jones Industrial Average. Indicators help investors figure out if their mutual fund or stock is doing as well as the rest of the market.

Stock option
a popular form of employee compensation, most often given to executives. The options allow executives to buy stock for a number of years at or below the share price when the option was granted. This is an added incentive for executives to maximize company profit and increase share prices.

Stock purchase plan
an organized program for employees of a company to buy shares of its stock.

Stock split
corporations do this to make shares more affordable. They multiply the number of shares, while keeping the aggregate value of stock even. In a 2-for-1 split of shares worth $50, an investor

would have twice as many shares as he had, but each would be worth $25.

Stockholder
also called a shareholder, it is an individual or organization with an ownership position in a corporation.

Stockholder of record
common or preferred stockholder whose name is registered on the books of a corporation as owning shares as of a particular date. Dividends and other distributions are made only to shareholders of record.

Stockholder’s report
a company's annual report and supplementary quarterly reports giving financial results and usually containing an accountant’s opinion.

Stop loss
in insurance it is the promise by a reinsurance company that it will cover losses incurred by the company it reinsures over and above an agreed-upon amount

Stop payment
the cancellation of payment on a cheque after the cheque has been sent or delivered to the payee.

Straight life annuity
an annuity that provides an agreed-upon payment until death, with nothing to the estate. The rate paid by a straight life annuity is the highest of all annuities per dollar of principal.

Straight-line depreciation
a method of depreciating a fixed asset whereby the asset's useful life is divided into the total cost less the estimated salvage value. The procedure is used to arrive at a uniform annual DEPRECIATION expense to be charged against income before figuring income taxes.

Strategic buyout

an ACQUISITION based on analysis of the operational benefits of consolidation. A strategic buyout focuses on how companies fit together and anticipates enhanced long-term earning power.

Subsidiary

company of which more than 50% of the voting shares are owned by another corporation, called the PARENT COMPANY.

Subsidy

an amount created when revenues do not meet opportunity costs, requiring that the loan be justified on higher order economic or social needs.

Sum-of-the-year's-digits method (SOYD)

method of ACCELERATED DEPRECIATION that results in higher DEPRECIATION charges and greater tax savings in the earlier years of a FIXED ASSET'S useful life than the STRAIGH-LINE DEPRECIATION method, where charges are uniform throughout. Sometimes called just sum-of-digits method, it allows depreciation based on an inverted scale of the total of digits for the years of useful life. Thus, for four years of life, the digits 4,3,2 and 1 are added to produce 10. The first year's rate becomes 4/10 of the depreciable cost of the asset (cost less salvage value), the second year's rate 3/10, and so on.

Sunk costs

costs already incurred in a project that cannot be changed by present or future actions. For example, if a company bought a piece of machinery five years ago, that amount of money has already been spent and cannot be recovered.

Sunrise industries

a symbolic term for the emerging growth sectors that some believe will be the mainstays of the future economy, taking the place of declining sunset industries.

Sunset provision

a condition in a law or regulation that specifies an expiration date unless reinstated by legislation.

Surcharge
an extra cost added to a charge, cost, or tax.

Surety
an individual or corporation, usually an insurance company, that guarantees the performance or faith of another. Term is also used to mean surety bond, which is a bond that backs the performance of the person bonded, such as a contractor, or that pays an employer if a bonded employee commits theft.

Surplus
indicates either CAPITAL SURPLUS or EARNED SURPLUS.

Surtax
a tax applied to corporations or individuals who have earned a certain level of income. For example, many provinces have 5% to 10% or 20% surtax on provincial income tax.

Sweat equity
equity created in a property by the hard work of the owner.

Synergy
the ideal sought in corporate mergers and acquisitions that the performance of a combined enterprise will exceed that of its previously separate parts.

T

Take-home pay

the amount of salary remaining after all deductions have been taken out. Some common deductions are for federal and provincial income tax withholding; CPP; UI; medical and dental care: union dues; and contributions to pensions and other retirement savings plans.

Takeover

the change in the controlling interest of a corporation.

Takeover target

a company that is the object of a takeover offer, whether the offer is friendly or unfriendly.

Taking delivery

the accepting receipt of goods from a common carrier or other shipper, usually documented by signing a bill of lading or other form of receipt.

Tangible asset

any asset which is a nonphysical right to something presumed to represent an advantage in the marketplace, such as a trademark or patent. Thus tangible assets are clearly those having physical existence, like cash, real estate, or machinery. Yet in accounting, assets such as ACCOUNTS RECEIVABLE are considered tangible, even though they are no more physical than a license or a lease, both of which are considered intangible.

Tangible cost

oil and gas drilling term meaning the cost of items that can be used over a period of time, such as casings, well fittings, land, and tankage, as distinguished from intangible costs such as drilling, testing, and geologist's expenses. In the most widely used LIMITED PARTNERSHIP sharing arrangements, tangible costs are borne by the GENERAL PARTNER (manager) while intangible costs are borne by the limited partners (investors), usually to be taken as tax deductions. In the event of a dry hole, however, all costs become intangibles.

Tangible Net Worth
also called net tangible assets. To calculate it is the total ASSETS less INTANGIBLE ASSETS and total LIABILITIES. Intangible assets include non-material benefits such as goodwill, patents, copyrights, and trademarks.

Target company
a firm that has been chosen as attractive for TAKEOVER by a potential acquirer. The acquirer may buy up to 5% of the target's stock without public disclosure, however once 5% or more of the stock is acquired, it must report all transactions and supply other information to the Securities and Exchange Commission, the exchange the target company is listed on, and the target company itself.

Target price
the price at which an acquirer aims to buy a company in a TAKEOVER.

Tariff
1. a federal tax on imports or exports usually imposed either to raise revenue (called a revenue tariff) or to protect domestic firms from import competition (called a protective tariff). The money collected under tariffs is called DUTY or customs duty.
2. usually for freight it is a schedule of rates or charges.

Tax planning
developing a strategy for minimizing the amount of taxes payable by an individual or a corporation throughout a tax year. Tax planning involves choosing a FILING STATUS, figuring out the most advantageous time to realize capital gains and losses, knowing when to accelerate deductions and postpone income or vice versa, setting up a proper estate plan to reduce deemed disposition on death taxes, and other legitimate tax-saving moves.

Tax audit
an audit by Revenue Canada, or provincial ministry of revenue to determine if a taxpayer paid the correct amount of tax. Returns will be chosen for audits if they have suspiciously high claims for deductions or credits, or if reported income is suspiciously low, or if computer matching of income uncovers discrepancies. Audits may be done on a relatively superficial level, or in great depth. If the auditor finds a tax deficiency, the taxpayer may have to pay back-taxes,

as well as interest and penalties. The taxpayer does have the right of appeal through the appeals process and, if warranted, to the Federal Court. There is taxpayers' bill of rights.

Tax base

the total amount of taxable property, assets, and income that can be taxed within a specific jurisdiction. A town's tax base is the assessed value of the homes and apartments (minus exempted property), income from businesses, business taxes, and other sources of taxable activity. If a business moves out of the town, the tax base shrinks, shifting the tax burden onto remaining homeowners and businesses.

Tax basis

in finance it is the original cost of an ASSET, less accumulated DEPRECIATION, that goes into the calculation of a gain or loss for tax purposes. Thus, a property acquired for $100,000 that has been depreciated by $40,000 has a tax basis of $60,000 assuming no other adjustments; sale of that property for $120,000 results in a taxable CAPITAL GAIN of $60,000.

Tax bracket

also called the marginal tax bracket, it is the level on the income-tax rate schedules where the amount of taxable income falls. It is expressed as a percentage to be applied to each additional dollar earned over the base amount for that bracket. Under a PROGRESSIVE TAX system, increases in taxable income lead to higher marginal rates in the form of higher brackets. There are 3 (17%,26% and 29%) tax brackets for individuals in Canada. Then provinces apply their taxes, usually as a percentage of federal taxes payable. For corporations the corporate rate varies from as low as 18% for a small business with net income below $200,000., to 44% for larger corporations.

Tax credit

a direct, dollar-for-dollar reduction in tax liability. Some areas include charitable and political donations, child care expenses, retirement funds and conducting research and development.

Tax deductible

any allowable expense that generates a tax deduction.

Tax deferred

a term describing an investment whose accumulated earnings are free from taxation until the investor takes possession of them. For example, the holder of an RRSP postpones paying taxes on interest, dividends, or capital appreciation if he or she waits until after age 71 and rolls the proceeds into an annuity or Registered Retirement Income Fund (RRIF).

Tax evasion

illegal practice of intentionally evading taxes. Tax evasion is different from TAX AVOIDANCE, which is the legal use of the Tax Act to reduce tax liability.

Tax haven

a country offering outside businesses and individuals an environment with little or no taxation.

Tax liability

income, property, sales, or other taxes owed to a government entity.

Tax lien

the statutory right obtained by a government to enforce a claim against the property of a person owing taxes until the debt is paid.

Tax loss, carryback, carryforward

the tax benefit that allows a company or individual to apply losses to reduce tax liability. A company may offset the current year's capital or NET OPERATING LOSSES against profits in the three immediately preceding years, with the earliest year first. After the carryback, it may carry forward (also called carryover) capital losses 7 years and net operating losses indefinitely. By then it will presumably have regained financial health. Individuals may carry over capital losses until they are used up for 7 years to offset capital gains, and can carry back losses for 3 years to apply to prior year's tax returns.

Tax rate

the percentage of tax to be paid on a certain level of income. Canada uses a system of marginal tax rates, meaning that the rates rise with taxable income. The top rate is paid only on the portion of income over the threshold. Currently, the federal government has 3 rates - 17%, 26% and

29%. There is also a series of surtaxes based on income. Each province has its own tax rates and surtaxes.

Tax refund

the refund of overpaid taxes from the government to the taxpayer.

Tax schedules

Tax forms used in addition to the basic form to report itemized deductions; dividend and interest income; investment income; profit or loss from business; capital gains and losses; property and child tax credits, transfer of tax credits, medical expenses, and charitable donations.

Tax shelter

the method used by investors to legally avoid or reduce tax liabilities.

Tax umbrella

tax loss carryforwards stemming from losses of a firm in past years, which shield profits earned in current and future years from taxes.

Taxable income

an amount of income (after all allowable deductions and tax credits) subject to tax.

Technical insolvency

is just before bankruptcy. It is a situation that occurs when a business is unable to pay bills as they fall due.

Temporary line of credit

a temporary (e.g., 2 or 3 months) additional line of credit from a bank to cover a special or seasonal requirement.

Tender credit

the line of credit relating to certified cheques that accompany tenders submitted by a contractor. If the bid is unsuccessful, the cheques are returned and the line of credit paid down. If the bid is successful, the amount is secured by the tender.

Term

1. period of time during which the conditions of a contract will be carried out. This may refer to the time in which loan payments must be made, or the time when interest payments will be made on a certificate of deposit or a bond or the time remaining until a bond reaches its maturity date. It also may refer to the length of time a life insurance policy is in force.
2. provision specifying the nature of an agreement or contract, as in terms and conditions.
3. period of time an official or board member is elected or appointed to serve. For example, Federal Reserve governors are appointed for 14 year terms.

Term debt

any debt for which repayment is scheduled beyond one year.

Term deposit

a deposit with a longer-term maturity date. Deposit holders usually receive a fixed rate of interest, payable semiannually or quarterly during the term, and are subject to costly early withdrawal penalties iif cashed in before the scheduled maturity.

Term deposit receipt

a deposit instrument most commonly available from chartered banks, requiring a minimum investment at a predetermined rate of interest for a stated term. The interest rate varies according to the amount invested and the term to maturity but is competitive with comparable alternative investments. A reduced interest rate usually applies if funds are withdrawn prior to maturity.

Term loan

an intermediate - to long-term secured credit granted to a company by a commercial bank, insurance company, or commercial finance company usually to finance capital equipment or provide working capital. The loan is amortized over a fixed period, and borrowers under term loan agreements are normally required to meet minimum working capital and debt to net worth tests, to limit dividends, and to maintain continuity of management.

Third party cheque

1. cheque negotiated through a bank, except one payable to the writer of the cheque (that is, a cheque written for cash). The primary party to a transaction is the bank on which a cheque is drawn. The secondary party is the drawer of the cheque against funds on deposit in the bank. The third party is the payee who endorses the cheque.
2. Double-endorsed cheque. In this instance, the payee endorses the cheque by signing the back, then passes the cheque to a subsequent holder, who endorses it prior to cashing it. Recipients of cheques with multiple endorsers are reluctant to accept them unless they can verify each endorser's signature.
3. Payable-through drafts and other negotiable orders not directly serviced by the providing company. Money orders and cheques drawn against a brokerage account are other examples of payable-through or third-party items.

Time draft

a draft payable at a specified or determinable time in the future, as distinguished from a sight draft, which is payable on presentation and delivery.

Timely disclosure

an obligation imposed by securities administrators or companies and their officers and directors, to release promptly to the news media any favourable or unfavourable corporate information of a material nature. Board dissemination of this news allows non-insiders to trade the company's securities with the same knowledge about the company as insiders.

Total capitalization

CAPITAL STRUCTURE of a company, including LONG-TERM DEBT and all forms of EQUITY.

Total costs

sum of FIXED COSTS, semi-variable costs, and VARIABLE COSTS.

Trade

1. also called commerce. It is the buying or selling of goods and services among companies, states, or countries. The amount of goods and services imported minus the amount exported

makes up a country's BALANCE OF TRADE.
2. Those in the business of selling products are called members of the trade.
3. Group of manufacturers who compete in the same market. These companies form trade associations and publish trade journals.
4. Commercial companies that do business with each other. For example, ACCOUNTS PAYABLE to suppliers are called trade accounts payable; the term TRADE CREDIT is used to describe accounts payable as a source of WORKING CAPITAL financing. Companies paying their bills promptly receive trade discounts when available.
5. Synonymous with BARTER, the exchange of goods and services without the use of money.

Trade credit

open account arrangements with suppliers of goods and services, and a firm's record of payment with the suppliers. Trade liabilities comprise a company's ACCOUNTS PAYABLE.

Trade deficit or surplus

the excess of imports over exports (trade deficit) or of exports over imports (trade surplus), resulting in a negative or positive BALANCE OF TRADE.

Trademark

a distinctive name, symbol, motto, or emblem that identifies a product, service, or firm. In Canada, trademark rights - the right to prevent competitors from using similar marks in selling or advertising - arise out of use; that is, registration is not essential to establish the legal existence of a mark. A trademark registered with the Industry Canada is good for 17 years, renewable as long as used. Products may be both patented and protected by trademark, the advantage being that when the patent runs out, exclusivity can be continued indefinitely with the trademark. A trademark is classified on a BALANCE SHEET as an INTANGIBLE ASSET. Although, like land, trademarks have an indefinite life and cannot technically be amortized, in practice accountants do amortize trademarks over their estimated life, not to exceed 17 years.

Transaction

in accounting it is an event or condition recognized by an entry in the books of account.

Transfer

an exchange of ownership of property from one party to another. For example, a piece of real estate may be transferred from seller to buyer through the execution of a sales contract. In banking, transfer refers to the movement of funds from one account to another, such as from a savings account to a chequing account.

Transfer price

also termed transfer cost. The price charged by individual entities in a multi-entity corporation on transactions among themselves.

Transfer tax

1. combined federal tax on gifts and estates.
2. tax levied by some provinces on the transfer of such documents as deeds to property, securities, or licenses. Such taxes are paid, usually with stamps, by the seller or donor and are determined by the location of the transfer agent. Land transfer tax is most common on the sale of a property and the registration of the deed.

Trustee in bankruptcy

trustee appointed by a court or by creditors to administer the affairs of a bankrupt company or individual. Under the Bankruptcy Act and Company's Creditors Arrangement Act, the trustee has the responsibility for liquidating the property of the company and making distributions of liquidating dividends to creditors. Under the bankruptcy provision, which provides for REORGANIZATION, a trustee may or may not be appointed. If one is, the trustee is responsible for seeing that a reorganization plan is filed and often assumes responsibility for the company.

Turnkey

any project constructed or manufactured by a company that ultimately turns it over in finished form to the company that will use it, so that all the user has to do is turn the key, so to speak, and the project is underway. The term is used of housing projects that, after construction, are turned over to property managers. There are also turnkey computer systems, for which the user needs no special computer knowledge and which can therefore be put right to work once they are installed.

Turnover

1. number of times a given asset is replaced during an accounting period, usually a year.
2. ratio of annual sales of a company to its NET WORTH measuring the extent to which a company can grow without additional capital investment when compared over a period.

U

Uncertainty
refers to the variability of outcomes associated with a specific project or event.

Uncollected funds
the portion of bank deposits made up of cheques that have not yet been collected by the depository bank - that is, payment has not yet been acknowledged by the bank on which a cheque was drawn. A bank will usually not let depositor draw on uncollected funds.

Uncollectible account
a customer account that cannot be collected because of the customer's unwillingness or inability to pay. A business normally writes off such a receivable as worthless after several attempts at collecting the funds.

Undercapitalization
a situation in which a business does not have enough capital to carry out its normal business functions.

Underwithholding
a situation in which taxpayers have too little federal, or provincial income tax withheld from their salaries. Because they have underwithheld, these taxpayers may owe income taxes when they file their tax returns. If the underwithholding is large enough, penalties and interest also may be due.

Undivided profits
an account shown on a bank's BALANCE SHEET representing profits that have neither been paid out as DIVIDENDS nor transferred to the bank's SURPLUS account. Current earnings are credited to the undivided profits account and are then either paid out in dividends or retained to build up total EQUITY. As the account grows, round amounts may be periodically transferred to the surplus account.

Unearned discount

an account on the books of a lending institution recognizing interest deducted in advance and which will be taken into income as earned over the life of the loan. In accordance with accounting principles, such interest is initially recorded as a LIABILITY. Then, as months pass and it is gradually "earned," it is recognized as income, thus increasing the lender's profit and decreasing the corresponding liability.

Unearned income (revenue)

income received but not yet earned, such as rent received in advance or other advances from customers. Unearned income is usually classified as a CURRENT LIABILITY on a company's BALANCE SHEET, assuming that it will be credited to income within the normal accounting cycle.

Unearned interest

interest that has already been collected on a loan by a financial institution, but that cannot yet be counted as part of earnings because the principal of the loan has not been outstanding long enough.

Unencumbered

property free and clear of all liens (creditors' claims). When a homeowner pays off his or her mortgage, for example, the house becomes unencumbered property.

V

Valuation reserve

a reserve or allowance, created by a charge to expenses (and therefore, in effect, taken out of profits) in order to provide for changes in the value of a company's assets. Accumulated DEPRECIATION, allowance for BAD DEBTS, and UNAMORTIZED BOND DISCOUNT are three familiar examples of valuation reserves.

Value-added tax (VAT)

a consumption tax levied on the value added to a product at each stage of its manufacturing cycle as well as at the time of purchase by the ultimate consumer.

Variable cost
a cost that changes directly with the amount of production.

Variable interest rate
interest rate on a loan that rises and falls based on the movement of an underlying index of interest rates.

Variable-rate demand note
a note representing borrowings (usually from a commercial bank) that is payable on demand and that bears interest tied to the bank PRIME RATE. The rate on the note is adjusted upward or downward each time the base rate changes.

Variance
in accounting the difference between actual cost and standard cost in the categories of direct material, direct labour, and direct overhead. A positive variation (when the actual cost is lower than the standard of anticipated cost) would translate into a higher profit unless offset by negative variances elsewhere.
In finance the difference between corresponding items on a comparative BALANCE SHEET and PROFIT AND LOSS STATEMENT. (2) difference between actual experience and budgeted or projected experience in any financial category. For example, if sales were projected to be $2 million for a period and were actually $2.5 million, there would be a positive variance of $500,000 , or 25%.
In real estate an allowed exception to zoning rules. If a particular neighbourhood were zoned for residential use only, a person wanting to open a store would need to be granted a variance from the zoning board in order to proceed.

Vendor
1. Supplier of goods or services of a commercial nature; may be a manufacturer, importer, or wholesale distributor.
2. Retailer of merchandise, especially one without an established place of business, as in sidewalk vendor.

Vested interest
an involvement having the element of personal gain.

Void

not legal. Deprived of legal force or effect, as a contract.

Voidable

a contract that can be annulled by either party after it is signed because fraud, incompetence, or another illegality exists or because a right of rescission applies.

Volume discount

any reduction in price based on the purchase of a large quantity.

Voluntary bankruptcy

a legal proceeding that follows a petition of bankruptcy filed by a debtor in the appropriate court under the Bankruptcy and Insolvency Act. Petitions for voluntary bankruptcy can be filed by any insolvent business or individual.

Voluntary settlement

"out-of-court" settlement or discharge with a company's creditors that leaves a technically insolvent or bankrupt company in a position to continue operations or to be liquidated.

Voting right

a stockholder's right to vote in the affairs of his or her company. Most common shares have one vote each. Preferred stocks usually have the right to vote when their dividends are in arrears. The right to vote may be delegated by the shareholder to another person (PROXY).

Voting stock

the shares in a corporation that entitle the shareholder to voting and PROXY rights. When a shareholder deposits such stock with a CUSTODIAN that acts as a voting TRUST, the shareholder retains rights to earnings and dividends but delegates voting rights to the trustee.

Voting trust

an arrangement by which shareholders surrender their voting rights, placing the control of a company in the hands of certain managers for a given period of time, or until certain results have been achieved.

W

Warehouse receipt

a document listing goods or commodities kept for safekeeping in a warehouse. The receipt can be used to transfer ownership of that commodity, instead of having to deliver the physical commodity. Warehouse receipts are used quite often with precious metals like gold, silver, and platinum.

Warranty

a contract between the seller and the buyer of a product which lists the terms and conditions under which the seller will make repairs or remedy other problems that may arise, at no additional cost to the buyer.

Wasting asset

1. fixed asset, other than land, that has a limited useful life and is therefore subject to DEPRECIATION.
2. natural resource that diminishes in value because of extractions of oil, ores, or gas, or the removal of timber, or similar depletion and that is therefore subject to AMORTIZATION.

Weighted average cost of capital

a measure of the cost of capital which is calculated by weighting the marginal cost of each type of capital (i.e., debt, preferred shares, common equity, etc.) by the proportion of that type of capital in the firm's capital structure.

White collar worker

an office worker in a professional, managerial, or administrative position. Those working in factories or doing manual labour are called blue-collar workers.

Wholesaler

middleman or DISTRIBUTOR who sells mainly to retailers, other merchants, and commercial users. They do not sell to consumers directly.

Wholly owned subsidiary

a SUBSIDIARY whose common stock is virtually 100% owned by the PARENT COMPANY.

Will

a document also called a testament, that, when signed and witnessed, gives legal effect to the wishes of a person, called a testator, with respect to disposal of property upon death.

Windfall profit

a profit that occurs suddenly as a result of an event not controlled by the person or company but they end up profiting from the event.

Windfall profits tax

a tax on profits that result from a sudden windfall to a particular company or industry.

Window dressing

an accounting ploy designed to make a FINANCIAL STATEMENT look better than the company is actually doing in reality. This is done by omitting certain expenses, by concealing liabilities, by delaying WRITE-OFFS, by anticipating sales, or by other such actions, which may or may not be fraudulent.

Withholding

deduction from salary payments and other compensation to provide for an individual's tax liability.

Working capital

funds invested in a company's cash, ACCOUNTS RECEIVABLE, INVENTORY, and other CURRENT ASSETS (gross working capital). It usually refers to net working capital - that is, current assets minus CURRENT LIABILITIES.

Working control

the control of a company by a shareholder or shareholders. Theoretically, ownership of 51% of a company's voting stock is necessary to exercise control.

Working interest

the property ownership agreement whereby each owner pays exploration and development costs for a property in proportion to ownership.

Write up/write down

an upward or downward adjustment of the accounting value of an asset according to Generally Accepted Accounting Principles.

Writedowns

a downward reevaluation of an asset that was previously recognized at a larger value by the company.

Write-offs

charging an ASSET amount to expense or loss. The effect of a write-offs is to reduce or eliminate the value of the asset and reduce profits. Write-offs are systematically taken in accordance with allowable tax DEPRECIATION of a FIXED ASSET, and with the AMORTIZATION of certain other assets, such as an INTANGIBLE ASSET and a capitalized cost (like premiums paid on investments). Write-offs are also taken when assets are, for whatever reason, deemed worthless, the most common example being uncollectible ACCOUNTS RECEIVABLE. Where such write-offs can be anticipated and therefore estimated, the usual practice has been to charge income regularly in amounts needed to maintain a RESERVE, the actual losses then being charged to the reserve

Written-down value

also called net book value, it is the book value of an asset after DEPRECIATION or other AMORTIZATION.

X

Y

Year-to-date

the period from the beginning of the calendar year (or FISCAL YEAR (FY) if so indicated) to the reporting date. For example third-quarterly results of a company would be reported for the quarter alone and for the year-to-date, which would be nine months.

Z

Zero balance account disbursing (ZBA)

an unique type of corporate chequing account used for disbursement control. The maintenance of a zero balance at all times is its differentiating characteristic. As cheques drawn against a ZBA clear, the total dollar amount accumulates and results in a debit total. At the close of the business day, a transfer of funds is made from a master account of the corporation to cover this debit total and to return the account to a zero balance. ZBAs are typically used by corporations that wish central cash control while allowing decentralized disbursing operations.

Zero-base budgeting (ZBB)

a method of setting budgets for corporations and government agencies that requires a justification of all expenditures, not only those that exceed the prior year's allocations. Thus all budget lines are said to begin at a zero base and are funded according to merit rather than according to the level approved for the preceding year, when circumstances probably differed.

Zombies

companies that continue to operate even though they are insolvent and bankrupt. Such companies, in addition to being called zombies, are called brain dead or living dead.

Zoning laws

municipal ordinances that authorize the establishment of zoning boards to administer regulations concerning the use of property and buildings in designated areas.