Finance Related terms

Asset : Something that has value or earning power. On the **balance sheet** of a company the following categories of assets are distinguished: current assets - cash, bank deposits and bills receivable; **trade investments;** fixed assets - land, buildings, plant and machinery, vehicles and furniture; intangible assets - **goodwill**, patents, etc., Financial assets are titles to cash such as a **bank deposit** or income and/or **capital gains** such as **ordinary shares**.

Balance sheet : A statement of the wealth of a business or organisation at a particular date, usually the end of the financial year, as distinct from a profit and loss account, which records changes over a period. The balance sheet is in two parts; assets on the left-hand side or at the top, and liabilities on the right-hand side or at the bottom. The assets of the company - debtors, cash investments and property - are equal to the claims or liabilities of the persons or organisations owning them; the creditors, lenders and shareholders. This is the principle of double-entry bookkeeping.

According tot he basic accounting equation, assets equal liabilities plus equity therefore, assets minus liabilities equal equity. Equity, shareholders' interest or net worth (which are all the same thing) may not reflect true market value, since assets are normally written into the balance sheet at historical cost (see costs, historical) without any adjustment for appreciation (sees appreciate, inflation accounting).

Bear : A speculator who sells **securities** because they expect a fall in prices; the antonym of **bull**. A bar who sells securities that hey do not posses is described as having sold short. If they do possess the securities that they sell, they are described as a covered or protected bear. A bear raid is an attempt by a number of investors acting in collusion to drive down he price of a share by selling stock. This has been done to defeat a **take-over** by depressing the shares of the predator. A bear market is one in which prices are falling.

Buffer Stock : A quantity of a **commodity,** normally established under an **international commodity agreement,** held by a designated common agency for the purpose of release into the market, or of accumulation by drawing from the market, in order to influence the market price.

Bull : A speculator who buys **securities** in the belief that prices will rise and that they will be able to sell them again later at a profit. The antonym of bear. The market is said to be 'bullish' when it is generally anticipated that prices will rise.

Bull Market : A period of time during which **stock market** prices are rising. See also **bull**. Antonym of bear market.

Capital Market(s) : The market for longer-term loanable funds as distinct from the **money market**, which deals in short-term funds. There is no clear-cut distinction between the two markets, although in principle capital market loans are used by industry and commerce for fixed **investment** and acquisitions. The capital market is an increasingly international one and in each country consists of all those institutions that channelise the supply of and demand for capital, including the **banking** system, the **stock exchange, insurance** companies and other **financial intermediaries.**

Commodity Market : A market or exchange, in which **commodities** are bought and sold. Such commodities are those required to satisfy production, food and ornamentation needs, e.g. cotton, grain and precious metals. Commodities are traded in the light of their basic distinguishing characteristics: (a) physical properties, (b) time of availability and (c) place of availability. Characteristic (a) determines the initial desirability of the commodity; (b) and (c) influence the price. Commodity markets are no longer chiefly physical markets, where deals are made out of warehouses, but are places for the sale and purchase by contract of commodities available anywhere in the world and at any point in time. Contracts for the latter are known as **forward contracts** and **futures**; those for immediate delivery are known as **cash, physical** or **actual** transactions. Major world commodity markets are in London, Chicago, Amsterdam, New York, Sydney and Singapore.

Credit Control : The regulation of bank and other forms of **credit** in the interest of **monetary policy.** Specifically the term applies to the arrangements for the control of bank credit, to replace credit ceilings, and credit control, which led to the introduction of the **minimum lending rate** and were intended to stimulate competition in the **banking** system.

Credit Rating : An assessment of the likelihood of an individual or business (even a country or government) being able to meet its financial obligations. Credit ratings are provided by credit agencies or **rating agencies** for sellers who wish to verify the financial strength of buyers, for lenders and for investors (ratings for specific securities). Banks also provide confidential trade references. Egs. International – Moody's, Standard & Poor. Indian – CRISIL, CARE, ICRA.

Debt : A sum of money or other property owed by one person or organisation to another. Debt comes into being through the granting of **credit** or through raising **loan capital**. Debt servicing consists of paying interest on a debt. The term Debt is, by extension, used to refer to the total loan exposure of an enterprise or public authority, or to the choice of **bonds** rather than **equity** in raising funds - 'to issue debt'.

Depreciation :

1. The reduction in the value of an **asset** through wear and tear. An allowance for the depreciation on a company's assets is always made before he calculation of **profit**, on the grounds that the consumption of capital assets is one of the costs of earning the revenues of the business and is allowed as such according to special rules by the tax authorities. Annual depreciation provisions are normally calculated either by the straight-line method, where the estimated residual value of the asset (e.g scrap) is deducted from its original cost and the balance divided by the number of years of estimated life to arrive at an annual depreciation expense; or by the reducing balance method, in which case the actual depreciation expense is set at a constant proportion of the cost of the asset, i.e. a diminishing annual absolute amount. In periods of rising prices, the replacement cost of an asset may be very much greater than its original cost. This problem may be dealt with by revaluing assets at intervals and adjusting depreciation charges accordingly. This is called replacement-cost as opposed to historic-cost depreciation (see inflation accounting)

2. A reduction in the value of a **currency** in terms of gold or other currencies in a free market. Also used to refer to a reduction in the purchasing power of any form of currency.

Dividend : The amount of a company's **profit** distributed to ordinary **shareholders;** usually expressed either as a percentage of the nominal value (see par value) of the ordinary share capital, or as an absolute amount per **share** . A dividend is the same as yield only where the shares stand at their nominal value. The amount of the dividend is decided by the board of directors depending upon profitability and the need for **retained earnings.** Where profitability is poor, if the outlook is good, then the dividend may be maintained as the pervious year's level or even increased out of **reserves**. The profits after tax from which dividends are paid are those after payments to holders of **preference shares** and **debentures** have been allowed for, the balance being split between dividends and reserves.

Dividends are paid to shareholders after deduction of **income tax** at the lower rate, **corporation tax** where applicable having already been paid out by the company. The larger **quoted companies** pay dividends quarterly or biannually (interim dividends). In these instances the last dividend declared in the **financial year** is known as the final dividend.

Earnings per share (EPS)

The total **profits** of a company after **taxation** and **interest**, divided by the number of **shares** at issue. Earnings per share will usually be higher than the **dividend** per share, because some earnings will be retained in the company not distributed as dividends.

Equity : The residual value of a company's **assets** after all **liabilities** (other than those to holders of **ordinary shares)** have been allowed for. The equity of a company is the property of the ordinary shareholders, hence these shares are popularly called equities. In a **mortgage or hire-purchase contract,** equity is the amount left for the borrower if the asset concerned is sold and the lender repaid.

Exchange rate : The rate at which one **currency** may be exchanged against another, i.e. the number of units of currency deemed to be equal to one unit of another; e.g. Rs. 47.50 = 1 US$. Terms with similar meaning are **parity and par value.** Exchange rates may be set by supply and demand for the **currency (floating rate)** or may be fixed, i,e. tied or linked to gold (see **gold standards)** or to other currencies.

Financial Institutions : The group of major commercial and public organisations engaged in exchanging, lending, borrowing and investing money. The term is often used as a alternative for **financial intermediaries.**

Financial intermediaries : Institutions that hold money balances or, or borrow from, individuals and other institutions, in order to make loans or other investments. Hence they serve the purpose of channelling funds from lenders to borrowers. Banks, building societies, hire-purchase companies, savings banks and investment trusts are financial intermediaries; but it is usual to distinguish between bank and non-bank financial intermediaries because of the role of the former in determining the money supply.

General Agreement on Tariffs and Trade (GATT)

A convention entered into by most nations of the non-communist world in 1947 for the liberalisation of world trade and for the establishment of an international trade organisation. Provision for the liberalisation of trade- comprising chiefly an extensive reduction of **tariffs** and acceptance of the ***most favoured nation principle*** (i.e. non-discrimination in the extension of tariff reduction) -and adoption of code of fair trading_ chiefly the disavowal of restrictive trade practices and non _tariff trade obstacles _ proved well received; while those for their establishment of an international trade organisation were not. Accordingly the tariff reduction were put into effect, and a secretariat was established in the United Nations European office in Geneva on 1st January 1948 to assist with the task of further implementing trade liberalisation under the convention.

In course of time the secretariat and the convention signatories constituted themselves into an organisation with the status of a specialised agency of the United nations, and the title General Agreement on Tariffs and Trade, or GATT, became applicable both to the organisation and to the convention itself.

The GATT has since greatly enlarged the scope of liberalisation notably through eight further negotiating rounds- two more at Geneva, one at Torquay and one at Annecy between 1947 and 1962: the Dillon round of 1967; a major round, the Kennedy round, ending in 1967; a major between 1973 and 1979, denoted the Tokyo round; and an eighth round, the Uruguay round beginning in 1986 and concluded at the end of 1993. Apart from further tariff cuts, reduction in non-tariff barriers and long-lasting endeavor to reconcile French and US agricultural interests, the Uruguay round was distinguished by a proposal for a *Multilateral Trade Organisation* (MTO) to enforce rules for international trade, itself a harking back to the International trade Organisation at the heart of the original convention of 1947, for which the GATT organisation was only a substitute . As a result of these, world trade tariff barriers were reduced to a small proportion of their level in 1947.

As time went on, not only was the GATT joined in the work of liberalisation by other bodies, such as the **Organisation for Economic Co-operation and Development** and the European Union, but its own efforts focused more particularly on non-tariff hindrances, such as subsidies and incentives, government procurement, restrictive trade agreements, developing country problems, agriculture and trade in services. Membership in 1988 numbered 88 Nations.

Liability : **1.** An obligation to make a financial payment, namely repayment of a bank loan, redemption of *loan stock* (see stock), payment of a **commercial bill**, payment of a business invoice. It may be either direct or implicit, i.e. the implicit obligation of a bank to repay the **deposits** held with it. The liabilities of a company include its **bank loans** and **overdraft**, its short-term **debts** for goods and services received (current liabilities) and its **loan** capital and the **capital** subscribed by **shareholders** Antithesis of **asset.** Most frequently used in **money markets, banking** and business accounting.

2. Of insurance, the insurance of the risk of claims in respect of misjudgement and incompetence to which employers ad the professions (e.g. doctors and accountants) are exposed. The term also used to denote such exposure.

Monetary Control : The operation by a central bank of measures to regulate the size of the **money supply.** In some countries, such as France and the UK, monetary control is a matter of government policy, and the central bank acts in accordance with this. In other countries, such as India, Germany and the USA, the central bank is entirely independent, though the government may make its views known.

Money Supply : The quantity of money in circulation in the economy. This conventionally consists of all **private-sector-**held notes and coin, excluding those held within banks, and all bank **deposits**, excluding those held by bank themselves. The money supply was initially further subdivided into: M1 = notes and coin, plus **sight deposits**; and M3 = M1 plus *time deposits.*

In course of time, further definitions were added to the above main categories, as follows. M2 is a intermediate aggregate, designed to distinguish *transactions balances* (deposits held for purposes of expenditure) from *investment balances* (deposits held as long-term savings). Only transactions balances were considered to from part of the money supply. These, redefined as retail deposits, included all bank deposits of less than a particular amount from which early withdrawals could be made, all early withdrawable shares and deposits in **building societies** and all deposits with **National Savings Bank** ordinary accounts. Thus: M2 = M1 plus retail deposits. MO is a narrower category, subsequently introduced, which consisted effectively of the **monetary base,** i.e. the central stock on which all money supply expansion is based, namely notes and coin, including that held by banks, plus operational balances held by banks with the Reserve Bank.

Before this, a definition still wider than that of M2 had been essayed. PSL1 (private sector liquidity) = M3 (time deposits up to two years) plus all **money market** and **certificate of deposit** holdings; plus all shorter-term holdings of building society and National Savings instruments (excluding holdings of money-market instruments by building societies themselves) In further search for definition, two more aggregates were added; M4 = M1 plus most bank deposits plus holdings of money-market instruments; and M5 = M4 plus building society deposits.

Money Market : The market in short-term (normally up to one year) financial **claims**, e.g. **bills of exchange, Treasury bills, interbank** money and **discount house deposits.** The market is wholesale, i.e. in large quantities traded not by individuals but by banks, discount houses, finance houses, banks and others; and most transactions are by **discount.**

Stock Exchange: A market in which **securities** are bought and sold. There are stock exchanges in most capital cities, as well as in the larger provincial cities in many countries. The **New York Stock Exchange, London Stock Exchange** and **Tokyo Stock Exchange** are the largest in terms of market capitalisation and turnover, although London lists the securities of more companies, particularly overseas companies, than either Tokyo or the NYSE .

Continental European exchanges are often referred to as bourses (Fr.) Sock exchanges facilitate **savings** and **investment** by making it possible for investors to dispose of securities quickly If they wish to do so (in the **secondary market)** and for companies, governments and other organisations to raise new **capital** in the primary market (see new **issue market**). Ready marketability requires that; **new issues** should be made and backed by reputable borrowers or institutions; information should be available on existing securities; competition should exist among **market makers;** and there should be adequate **liquidity**. There should be both a legal framework and market rules to prevent fraud and sharp practice (see **regulation).** There are various trading systems on stock exchanges (see **order driven**), but **trading floors** are gradually giving way to **automated screen trading** and telephone markets. These new technologies and deregulation have permitted the development of new systems for trading securities outside of stock exchanges (**NASDAQ or National Association of Securities Dealers Automated Quotations System).**

In India, the largest stock exchange in terms of scripts listed is BSE or the Bombay Stick Exchange, and in terms of turnover is NSE or the National Stock Exchange. The BSE is among the oldest stock exchanges in Asia.