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Guidance Note on Terms Used in Financial Statements

The following is the text of the guidance note issued with a view to clarify the important terms (including phrases) commonly used in the preparation and presentation of 'general purpose financial statements'. These statements include balance sheet, statement of profit and loss and other statements and explanatory notes which form part thereof, issued for the use of shareholders/members, creditor, employees and public at large.

INTRODUCTION

1. The objective of this guidance note is to facilitate a broad and basic understanding of the various terms as well as to promote consistency and uniformity in their usage. As such it does not purport to provide a comprehensive or rigid dictionary.

2. The basic considerations to be borne in mind when selecting terms for use in the financial statements are clarity, significance and consistency.

3. This guidance note does not primarily cover the terms used in a specific sense by certain specialised institutions, e.g., banks, insurance companies, financial institutions or electricity companies. However, it is possible that some of the terms defined here may have common application for such institutions.

4. Many of the terms have, over a period of time, acquired a worldwide usage and recognition. Therefore, while formulating this guidance note, the Accounting Standards Board has taken into consideration the terminologies in use in various countries as formulated by their respective professional bodies.

5. The terms have been defined in this note, keeping in view their usage in the preparation and presentation of the financial statements. Some of these terms may have different meanings when used in the context of certain special enactments.

6. The definitions of the terms in this guidance note do not spell out the accounting procedure and are not prescriptive of a course of action.

GENERAL DEFINITIONS

1.01 Absorption Costing

A method whereby the *cost* is determined so as to include the appropriate share of both *variable* and *fixed costs*.

1.02 Acceptance

The drawee's signed assent on *bill of exchange*, to the order of the drawer. This term is also used to describe a *bill of exchange* that has been accepted.

1.03 Account Receivable

See **Sundry Debtor**

1.04 Accounting Policies

The specific accounting principles and the methods of applying those principles adopted by an enterprise in the preparation and presentation of financial statements.

1.05 Accrual

Recognition of *revenues* and *costs* as they are earned or incurred (and not as money is received or paid). It includes recognition of transactions relating to *assets* and *liabilities* as they occur irrespective of the actual receipts or payments.

1.06 Accrual Basis of Accounting

The method of recording transactions by which *revenues, costs, assets* and *liabilities* are reflected in the accounts in the period in which they accrue. The 'accrual basis of accounting' includes considerations relating to *deferrals*, allocations, *depreciation* and *amortisation*. This basis is also referred to as **mercantile basis of accounting**.

1.07 Accrued Asset

A developing but not yet enforceable claim against another person which accumulates with the passage of time or the rendering of service or otherwise. It may arise from the rendering of services (including the use of money) which at the date of accounting have been partly performed, and are not yet billable.

The terms given in italics have been defined elsewhere in this guidance note.

1.08 Accrued Expense

An *expense* which has been incurred in an accounting period but for which no enforceable claim has become due in that period against the enterprise. It may arise from the purchase of services (including the use of money) which at the date of accounting have been only partly performed, and are not yet billable.

1.09 Accrued Liability

A developing but not yet enforceable claim by another person which accumulates with the passage of time or the receipt of service or otherwise. It may arise from the purchase of services (including the use of money) which at the date of accounting have been only partly performed, and are not yet billable.

1.10 Accrued Revenue

Revenue which has been earned in an accounting period but in respect of which no enforceable claim has become due in that period by the enterprise. It may arise from the rendering of services (including the use of money) which at the date of accounting have been partly performed, and are not yet billable.

1.11 Accumulated Depletion

The total to date of the periodic *depletion* charges on *wasting assets*.

1.12 Accumulated Depreciation

The total to date of the periodic *depreciation* charges on *depreciable assets*.

1.13 Actual Cost

See **Cost**

1.14 Ad-valorem

A method of levying tax or duty on goods by using their assessable value as the tax base.

1.15 Added Value

See **Value Added**

1.16 Added Value Statement

See **Value Added Statement**

1.17 Advance

Payment made on account of, but before completion of, a contract, or before acquisition of goods or receipt of services.

1.18 Amortisable Amount

See **Amortisation**

1.19 Amortisation

The gradual and systematic writing off of an *asset* or an account over an appropriate period. The amount on which *amortisation* is provided is referred to as *amortisable amount*. *Depreciation* accounting is a form of amortisation applied to *depreciable assets*. *Depletion* accounting is another form of amortisation applied to *wasting assets*. Amortisation also refers to gradual extinction or *provision* for extinction of a debt by gradual *redemption* or *sinking fund* payments or the gradual writing off to *revenue* of miscellaneous expenditure carried forward, e.g., *share issue expenses, preliminary expenses*, etc.

1.20 Amortised Value

The *amortisable amount* less any portion already provided by way of *amortisation*.

1.21 Annual Report

The information provided annually by the management of an enterprise to the owners and other interested persons concerning its operations and financial position. It includes the information statutorily required, e.g., in the case of a company, the *balance sheet, profit and loss statement* and notes on accounts, the *auditor's report* thereon, and the report of the Board of Directors. It also includes other information voluntarily provided e.g., *value added statement*, graphs, charts, etc.

1.22 Appropriation Account

An account sometimes included as a separate section of the *profit and loss statement* showing application of *profits* towards *dividends, reserves*, etc.

1.23 Assets

Tangible objects or intangible rights owned by an enterprise and carrying probable future benefits.

1.24 Auditor's Report

The formal expression of opinion by an independent external auditor on the financial statements of an enterprise including such reservations, qualifications and negations as may be called for and incorporating, where appropriate, such statutory affirmations as may be prescribed.

1.25 Authorised Share Capital

The number and par value, of each class of shares that an enterprise may issue in accordance with its instrument of incorporation. This is sometimes referred to as **nominal share capital.**

1.26 Average Cost

The *cost* of an item at a point of time as determined by applying an average of the cost of all items of the same nature over a period. When weightages are also applied in the computation, it is termed as **weighted average cost.**

2.01 Bad Debts

Debts owed to an enterprise which are considered to be irrecoverable.

2.02 Balance Sheet

A statement of the financial position of an enterprise as at a given date, which exhibits its *assets, liabilities, capital, reserves* and other account balances at their respective *book values*.

2.03 Bill of Exchange

An instrument in writing containing an unconditional order, signed by the maker, directing a certain person to pay a certain sum of money only, to or to the order of a certain person or to the bearer of the instrument.

2.04 Bond

See **Debenture**

2.05 Bonus Shares

Shares allotted by capitalisation of the *reserves* or *surplus* of a corporate enterprise.

2.06 Book Value

The amount at which an item appears in the books of account or financial statements. It does not refer to any particular basis on which the amount is determined e.g., *cost*, replacement value, etc.

3.01 Call

A demand pursuant to terms of issue to pay a part or whole of the balance remaining payable on shares or *debentures* after allotment.

3.02 Called-up Share Capital

That part of the *subscribed share capital* which shareholders have been required to pay.

3.03 Capital

Generally refers to the amount invested in an enterprise by its owners e.g. *paid-up share capital* in a corporate enterprise. It is also used to refer to the interest of owners in the assets of an enterprise.

3.04 Capital Assets

Assets, including *investments* not held for sale, conversion or consumption in the ordinary course of business.

3.05 Capital Commitment

Future *liability* for capital expenditure in respect of which contracts have been made.

3.06 Capital Employed

The finances deployed by an enterprise in its *net fixed assets, investments* and *working capital*. Capital employed in an operation may, however, exclude *investments* made outside that operation.

3.07 Capital Loss

See **Capital Profit**

3.08 Capital Profit

Excess of the proceeds realised from the sale, transfer, or exchange of the whole or a part of a *capital asset* over its *cost*. When the result of this computation is negative, it is referred to as **capital loss**.

3.09 Capital Redemption Reserve

A *reserve* created on *redemption* of the *redeemable preference shares* of a corporate enterprise out of its *profits* which would otherwise have been available for distribution as *dividend.*

3.10 Capital Reserve

A *reserve* of a corporate enterprise which is not available for distribution as *dividend.*

3.11 Capital Work-in-progress

Expenditure on *capital assets* which are in the process of construction or completion.

3.12 Cash Basis of Accounting

The method of recording transactions by which *revenues* and *costs* and *assets* and *liabilities* are reflected in the accounts in the period in which actual receipts or actual payments are made.

3.13 Cash Discount

A reduction granted by a supplier from the invoiced price in consideration of immediate payment or payment within a stipulated period.

3.14 Cash Profit

The *net profit* as increased by non-cash costs, such as *depreciation*, *amortisation*, etc. When the result of the computation is negative, it is termed as **cash loss**.

3.15 Changes in Financial Position, Statement of

A financial statement which summarises, for the period covered by it, the changes in the financial position including the sources from which funds were obtained by the enterprise and the specific uses to which such funds were applied. This is also called the **funds flow statement.**

3.16 Charge

An encumbrance on an *asset* to secure an indebtedness or other obligations. It may be fixed or floating.

3.17 Cheque

A *bill of exchange* drawn upon a specified banker and not expressed to be payable otherwise than on demand.

3.18 Collateral Security

Security which is given in addition to the principal security against the same *liability* or obligation.

3.19 Contingency

A condition or situation, the ultimate outcome of which, *gain* or *loss*, will be known or determined only on the occurrence or non-occurrence of one or more uncertain future events.

3.20 Contingent Asset

An *asset* the existence, ownership or value of which may be known or determined only on the occurrence or non-occurrence of one or more uncertain future events.

3.21 Contingent Liability

An obligation relating to an existing condition or situation which may arise in future depending on the occurrence or non-occurrence of one or more uncertain future events.

3.22 Contra Account

One or two or more accounts which partially or wholly off-set another or other accounts.

3.23 Cost

The amount of *expenditure* incurred on or attributable to a specified article, product or activity.

3.24 Cost of Purchase

The purchase price including duties and taxes, freight inwards and other *expenditure* directly attributable to acquisition, less *trade discounts*, rebates, duty drawbacks, and subsidies in respect of such purchase.

3.25 Cost-plus Contract

A contract under which the contractor is reimbursed for allowable or otherwise defined *costs* as increased by a percentage of such *costs* or an agreed fee.

3.26 Cost of Goods Sold

The cost of goods sold during an accounting period. In manufacturing operations, it includes (i) cost of materials; (ii) labour and factory overheads; selling and administrative expenses are normally excluded.

3.27 Cost of Sales

Cost of goods sold plus selling and administrative expenses.

3.28 Conversion Cost

Cost incurred to convert raw materials or components into finished or semi-finished products. This normally includes *costs* which are specifically attributable to units of production, i.e., direct labour, direct expenses and subcontracted work, and production overheads as applicable in accordance with either the *direct cost* or *absorption costing method*. Production overheads exclude expenses which relate to general administration, finance, selling and distribution.

3.29 Convertible Bond

See **Convertible Debenture**

3.30 Convertible Debenture

A *debenture* which gives the holder a right to its conversion, wholly or partly, in shares in accordance with the terms of issue.

3.31 Creditor

See **Sundry Creditor**

3.32 Cumulative Dividend

A *dividend* payable on *cumulative preference shares* which, if unpaid, accumulates as a claim against the earnings of a corporate enterprise, before any distribution is made to the other shareholders.

3.33 Cumulative Preference Shares

A class of preference shares entitled to payment of *cumulative dividends*. Preference shares are always deemed to be cumulative, unless they are expressly made non-cumulative.

3.34 Current Assets

Cash and other *assets* that are expected to be converted into cash or consumed in the production of goods or rendering of services in the normal course of business.

3.35 Current Liability

Liability including loans, deposits and bank overdraft which falls due for payment in a relatively short period, normally not more than twelve months.

4.01 Debenture

A formal document constituting acknowledgment of a debt by an enterprise usually given under its common seal and normally containing provisions regarding payment of interest, repayment of principal and security, if any. It is transferable in the appropriate manner.

4.02 Debenture Redemption Reserve

A *reserve* created for the *redemption* of *debentures* at a future date.

4.03 Debtor

See **Sundry Debtor**

4.04 Deferral

Postponement of recognition of a *revenue* or *expense* after its related receipt or payment (or incurrence of a *liability*) to a subsequent period to which it applies. Common examples of deferrals include prepaid rent and taxes, unearned subscriptions received in advance by newspapers and magazine selling companies, etc.

4.05 Deferred Expenditure

Expenditure for which payment has been made or a *liability* incurred but which is carried forward on the presumption that it will be of benefit over a subsequent period or periods. This is also referred to as **deferred revenue expenditure.**

4.06 Deferred Revenue

Revenue or *income* received or recorded before it is earned and carried forward to a subsequent period or periods to which it relates.

4.07 Deferred Revenue Expenditure

See **Deferred Expenditure**

4.08 Deficiency

The excess of *liabilities* over *assets* of an enterprise at a given date. The debit balance in the *profit and loss statement*.

4.09 Deficit

The debit balance in the *profit and loss statement.*

4.10 Depletion

A measure of exhaustion of a *wasting asset* represented by periodic write off of *cost* or other substituted value.

4.11 Depreciable Amount

The historical cost, or other amount substituted for historical cost of a *depreciable asset* in the financial statements, less the estimated residual value.

4.12 Depreciable Asset

Asset which is expected to be used during more than one accounting period, has a limited *useful life*, and is held by an enterprise for use in the production or supply of goods, and services, for rental to others, or for administrative purposes and not for the purpose of sale in the ordinary course of business.

4.13 Depreciation

A measure of the wearing out, consumption or other loss of value of a *depreciable asset* arising from use, effluxion of time or *obsolescence* through technology and market changes. It is allocated so as to charge a fair proportion in each accounting period during the *useful life* of the *asset*. It includes *amortisation* of *assets* whose *useful life* is predetermined and *depletion* of *wasting assets*.

4.14 Depreciation Method

Any method of calculating *depreciation* for an accounting period.

4.15 Depreciation Rate

A percentage applied to the historical cost or the substituted amount of a *depreciable asset* (or in case of *diminishing balance method*, the historical cost or the substituted amount less *accumulated depreciation*).

4.16 Development Allowance Reserve

A *reserve* created in compliance with one of the conditions for claiming development allowance under the Income-tax Act, 1961.

4.17 Development Rebate Reserve

A *reserve* created in compliance with one of the conditions for claiming development rebate under the Income-tax Act, 1961.

4.18 Diminishing Balance Method

A method under which the periodic charge for *depreciation* of an *asset* is computed by applying a fixed percentage to its historical cost or substituted amount less *accumulated depreciation* (net book value). This is also referred to as **written down value method**.

4.19 Direct Cost

An item of *cost* that can be reasonably identified with a specific unit of product or with a specific operation or other cost center.

4.20 Direct Costing

A method whereby the *cost* is determined so as to include the appropriate share of *variable costs* only, all *fixed costs* being charged against *revenue* in the period in which they are incurred.

4.21 Discount

A reduction from a list price, quoted price or invoiced price. It also refers to the price for obtaining payment on a bill before its maturity.

4.22 Dividend

A distribution to shareholders out of *profits* or *reserves* available for this purpose.

4.23 Dividend Equalisation Reserve

A *reserve* created to maintain the rate of *dividend* in future years.

5.01 Earnings Per Share

The earnings in monetary terms attributable to each *equity share*, based on the *net profit* for the period, before taking into account *prior period items, extraordinary items* and adjustments resulting from changes in *accounting policies* but after deducting tax appropriate thereto and preference *dividends*, divided by the number of equity shares issued and ranking for dividend in respect of that period.

5.02 Entity Concept

The view of the relationship between the accounting entity and its owners which regards the entity as a separate person, distinct and apart from its owners.

5.03 Equity Share

A share which is not a preference share. Also sometimes called **ordinary share.**

5.04 Expenditure

Incurring a *liability*, disbursement of cash or transfer of property for the purpose of obtaining *assets*, goods or services.

5.05 Expense

A *cost* relating to the operations of an accounting period or to the *revenue* earned during the period or the benefits of which do not extend beyond that period.

5.06 Expired Cost

That portion of an *expenditure* from which no further benefit is expected. Also termed as **expense**.

5.07 Extraordinary Item

Gain or loss which arises from events or transactions that are distinct from ordinary activities of the enterprise and which are both material and expected not to recur frequently or regularly. This would also include material adjustments necessitated by circumstances, which, though related to previous periods, are determined in the current period.

6.01 Fair Market Value

The price that would be agreed to in an open and unrestricted market between knowledgeable and willing parties dealing at arm's length who are fully informed and not under any compulsion to transact. Arm's length is a term applied to any transaction on the assumption that the parties to the transaction would act without being influenced by each other or by any other person.

6.02 Fictitious Asset

Item grouped under *assets* in a *balance sheet* which has no real value (e.g. the debit balance of the *profit and loss statement*).

6.03 First Charge

A *charge* having priority over other charges.

6.04 First In, First Out (FIFO)

Computation of the *cost* of items sold or consumed during a period as though they were sold or consumed in order of their acquisition.

6.05 Fixed Asset

Asset held for the purpose of providing or producing goods or services and that is not held for resale in the normal course of business.

6.06 Fixed Cost

That cost of production which by its very nature remains relatively unaffected in a defined period of time by variations in the volume of production.

6.07 Fixed Deposit

Deposit for a specified period and at specified rate of interest.

6.08 Fixed or Specific Charge

A *charge* which attaches to a particular *asset* which is identified when the charge is created, and the identity of the *asset* does not change during the subsistence of the *charge*.

6.09 Floating Charge

A general *charge* on some or all *assets* of an enterprise which are not attached to specific *assets* and are given as security against a debt.

6.10 Foreign Currency, Translation of

The process of expressing amounts stated in a foreign currency into equivalent amounts in local currency by using an exchange rate between the two currencies.

6.11 Foreign Currency Conversion

The process of expressing amounts stated in a foreign currency into equivalent amounts in local currency by using the exchange rate at which the foreign currency is bought or sold.

6.12 Forfeited Share

A share to which title is lost by a member for non-payment of call money or default in fulfilling any engagement between members or expulsion of members where the articles specifically provide therefor.

6.13 Free Reserve

A *reserve* the utilisation of which is not restricted in any manner.

6.14 Functional Classification

A system of classification of *expenses* and *revenues* and the corresponding *assets* and *liabilities* to each function or activity, rather than by reference to their nature.

6.15 Fund

An account usually of the nature of a *reserve* or a *provision* which is represented by specifically earmarked *assets*.

6.16 Fundamental Accounting Assumptions

Basic accounting assumptions which underlie the preparation and presentation of financial statements. They are *going concern*, consistency and *accrual*. Usually, they are not specifically stated because their acceptance and use are assumed. Disclosure is necessary if they are not followed.

6.17 Funds Flow Statement

See **Changes in Financial Position, Statement of**

7.01 Gain

A monetary benefit, *profit* or advantage resulting from a transaction or group of transactions.

7.02 General Reserve

A *revenue reserve* which is not earmarked for a specific purpose.

7.03 Going Concern Assumption

An accounting assumption according to which an enterprise is viewed as continuing in operation for the foreseeable future. It is assumed that the enterprise has neither the intention nor the necessity of liquidation or of curtailing materially the scale of its operations.

7.04 Goodwill

An *intangible asset* arising from business connections or trade name or reputation of an enterprise.

7.05 Gross Margin or Gross Profit

The excess of the proceeds of goods sold and services rendered during a period over their *cost*, before taking into account administration, selling, distribution and financing expenses. When the result of this computation is negative it is referred to as **gross loss**.

7.06 Gross Sales

See **Sales Turnover**

7.07 Gross Turnover

See **Sales Turnover**

8.01 Income

See **Revenue**

8.02 Income and Expenditure Statement

A financial statement, often prepared by non-profit making enterprises like clubs, associations etc. to present their *revenues* and *expenses* for an accounting period and to show the excess of *revenues* over *expenses* (or vice versa) for that period. It is similar to profit and loss statement and is also called **revenue and expense statement.**

8.03 Intangible Asset

Asset which does not have a physical identity e.g. *goodwill*, patents, copyright etc.

8.04 Internal Audit

An independent appraisal activity within an enterprise whether by the staff of the enterprise or by a firm of accountants appointed for that purpose, for the review of accounting, financial and other operations and controls as a basis for service to management. It involves a specialised application of the techniques of auditing.

8.05 Internal Check

A system of allocation of responsibility, division of work, and methods of recording transactions, whereby the work of an employee or group of employees is checked continuously by correlating it with the work of others. An essential feature is that no one employee or group of employees has exclusive control over any transaction or group of transactions.

8.06 Internal Control

The entire system of controls, financial and otherwise, established by the management in order to carry on the business of the enterprise in an orderly and efficient manner, ensure adherence to management policies, safeguard the *assets* and secure as far as possible the accuracy and completeness of the records.

8.07 Interim Report

The information provided with reference to a date before the close of the accounting period by the management of an enterprise to owners or other interested persons concerning its operations or financial position.

8.08 Inventory

Tangible property held for sale in the ordinary course of business, or in the process of production for such sale, or for consumption in the production of goods or services for sale, including maintenance supplies and consumables other than machinery spares.

8.09 Investment

Expenditure on *assets* held to earn interest, *income, profit* or other benefits.

8.10 Investments

Assets held not for operational purposes or for rendering services i.e. assets other than *fixed assets* or *current assets* (e.g. securities, shares, *debentures*, immovable properties).

8.11 Investment Allowance Reserve

A *reserve* created in compliance with one of the conditions for claiming investment allowance under the Income-tax Act, 1961.

8.12 Issued Share Capital

That portion of the *authorised share capital* which has actually been offered for subscription. This includes any *bonus shares* allotted by the corporate enterprise.

9.01 Last In, First Out (LIFO)

Computation of the *cost* of items sold or consumed during a period on the basis that the items last acquired were sold or consumed first.

9.02 Liability

The financial obligation of an enterprise other than owners' funds.

9.03 Lien

Right of one person to satisfy a claim against another by holding or retaining possession of that other's *assets*/property.

9.04 Long-term Liability

Liability which does not fall due for payment in a relatively short period, i.e., normally a period not more than twelve months.

9.05 Loss

See **Profit**

10.01 Materiality

An accounting concept according to which all relatively important and relevant items, i.e., items the knowledge of which might influence the decisions of the user of the financial statements are disclosed in the financial statements.

10.02 Mercantile Basis of Accounting

See **Accrual Basis of Accounting**

10.03 Mortgage

A transfer of interest in specific immovable property for the purpose of securing a loan advanced, or to be advanced, an existing or future debt or the performance of an engagement which may give rise to a pecuniary *liability.* The security is redeemed when the loan is repaid or the debt discharged or the obligations performed.

11.01 Net Assets

The excess of the *book value* of *assets* (other than *fictitious assets*) of an enterprise over its *liabilities*. This is also referred to as **net worth** or **shareholders' funds.**

11.02 Net Fixed Assets

Fixed assets less *accumulated depreciation* thereon up-to-date.

11.03 Net Loss

See **Net Profit**

11.04 Net Profit

The excess of *revenue* over *expenses* during a particular accounting period. When the result of this computation is negative, it is referred to as **net loss**. The net profit may be shown before or after tax.

11.05 Net Realisable Value

The actual/estimated selling price of an *asset* in the ordinary course of the business less cost of completion and cost necessarily to be incurred in order to make the sale.

11.06 Net Sales

See **Sales Turnover**

11.07 Net Turnover

See **Sales Turnover**

11.08 Net Worth

See **Net Assets**

11.09 Nominal Share Capital

See **Authorised Share Capital**

12.01 Obsolescence

Diminution in the value of an *asset* by reason of its becoming out-of-date or less useful due to technological changes, improvement in production methods, change in market demand for the product or service output of the *asset*, or legal or other restrictions.

12.02 Operating Profit

The *net profit* arising from the normal operations and activities of an enterprise without taking account of extraneous transactions and expenses of a purely financial nature.

13.01 Paid-up Share Capital

That part of the *subscribed share capital* for which consideration in cash or otherwise has been received. This includes *bonus shares* allotted by the corporate enterprise.

13.02 Pari Passu Charge

Charge created by an enterprise on its *assets* in favour of more than one person on the condition that each such person has equal rights of realisation out of the assets as the other(s).

13.03 Pledge

Deposit of goods by one person (pledgor or pawnor) to another person (pledgee or pawnee) as a security for payment of a debt or performance of a promise. The pledgee has a special *lien*/right on the property in the pledged goods with a right to sell the same after notice if the pledgor fails to discharge the debt or perform his promise on the stipulated date.

13.04 Preference Share Capital

That part of the *share capital* of a corporate enterprise which enjoys preferential rights in respect of payments of fixed *dividend* and repayment of *capital*. Preference shares may also have full or partial participating rights in surplus profits or surplus capital.

13.05 Preferential Payment

Payment which in a winding up or insolvency has to be made in priority to all other debts as per statute.

13.06 Preliminary Expenses

Expenses relating to the formation of an enterprise. These include legal, accounting and share issue expenses incurred for formation of the enterprise.

13.07 Pre-paid Expense

Payment for *expense* in an accounting period, the benefit for which will accrue in the subsequent accounting period(s).

13.08 Prime Cost

The total *cost* of direct materials, direct wages and other direct production expenses.

13.09 Prior Period Item

A material charge or credit which arises in the current period as a result of errors or omissions in the preparation of the financial statements of one or more prior periods.

13.10 Profit

A general term for the excess of *revenue* over related *cost*. When the result of this computation is negative it is referred to as **loss**. Also see **gross profit, operating profit, net profit**.

13.11 Profit and Loss Statement

A financial statement which presents the *revenues* and *expenses* of an enterprise for an accounting period and shows the excess of *revenues* over *expenses* (or vice versa). It is also known as **profit and loss account**.

13.12 Promissory Note

An instrument in writing (not being a bank note or currency note) containing an unconditional undertaking, signed by the maker, to pay a certain sum of money only to, or to the order of, a certain person or to the bearer of the instrument.

13.13 Propriety Concept

A concept of evaluating performance or specific transactions of an enterprise with reference to the tests of commonly accepted norms, customs and standards of conduct including those based on considerations of public interest.

13.14 Provision

An amount written off or retained by way of providing for *depreciation* or diminution in value of *assets* or retained by way of providing for any known *liability* the amount of which cannot be determined with substantial accuracy.

13.15 Provision for Doubtful Debts

A *provision* made for debts considered doubtful of recovery.

13.16 Prudence

A concept of care and caution used in accounting according to which (in view of the uncertainty attached to future events) *profits* are not anticipated, but recognised only when realised, though not necessarily in cash. Under this concept, *provision* is made for all known *liabilities* and losses, even though the amount cannot be determined with certainty and represents only a best estimate in the light of available information.

13.17 Public Deposits

Fixed deposits accepted by an enterprise from the public in accordance with the prevailing Rules made in this behalf.

14.01 Redeemable Preference Share

The preference share that is repayable either after a fixed or determinable period or at any time decided by the management (by giving due notice), under certain conditions prescribed by the instrument of incorporation or the terms of issue.

14.02 Redemption

Repayment as per given terms normally used in connection with preference shares and *debentures*.

14.03 Reduction of Capital

The extinguishment or reduction of shareholders' liability on any of the shares of a corporate enterprise in respect of the *share capital* not fully paid up or the cancellation of *paid-up share capital* of a company which is not represented by available *assets*. It also refers to the return of any *paid-up share capital* in excess of requirements.

14.04 Reserve

The portion of earnings, receipts or other surplus of an enterprise (whether capital or revenue) appropriated by the management for a general or a specific purpose other than a *provision* for *depreciation* or diminution in the value of *assets* or for a known *liability*. The reserves are primarily of two types: *capital reserves* and *revenue reserves*.

14.05 Revaluation Reserve

A *reserve* created on the revaluation of *assets* or *net assets* of an enterprise represented by the surplus of the estimated replacement cost or estimated market values over the *book values* thereof.

14.06 Revenue

The gross inflow of cash, receivables or other consideration arising in the course of the ordinary activities of an enterprise from the sale of goods, from the rendering of services, and from the use by others of enterprise resources yielding interest, royalties and *dividends*. Revenue is measured by the charges made to customers or clients for goods supplied and services rendered to them and by the charges and rewards arising from the use of resources by them. It excludes amounts collected on behalf of third parties such as certain taxes. In an agency relationship, the revenue is the amount of commission and not the gross inflow of cash, receivables or other consideration.

14.07 Revenue and Expense Statement

See **Income and Expenditure Statement**

14.08 Revenue Reserve

Any *reserve* other than a *capital reserve*.

14.09 Right Share

An allotment of shares on the issue of fresh *capital* by a corporate enterprise to which a shareholder is entitled on payment, by virtue of his holding certain shares in the enterprise in proportion to the number of shares already held by him. (Shares allotted to certain categories of *debenture* holders pursuant to the rights enjoyed by them are sometimes called right shares)

15.01 Sales Turnover

The aggregate amount for which sales are effected or services rendered by an enterprise. The terms **gross turnover** and **net turnover** (or **gross sales** and **net sales**) are sometimes used to distinguish the sales aggregate before and after deduction of returns and trade discounts.

15.02 Secured Loan

Loan secured wholly or partly against an *asset*.

15.03 Self-Insurance

The assumption by an enterprise of a risk which is not covered by an external insurance agency and for which internal allocations or *provisions* have been made.

15.04 Share Capital

Aggregate amount of money paid or credited as paid on the shares and/or stocks of a corporate enterprise.

15.05 Share Discount

The excess of the face value of shares over their issue price.

15.06 Shareholders' Equity

The interest of the shareholders in the *net assets* of a corporate enterprise. However, in the case of liquidation it is represented by the residual *assets* after meeting prior claims.

15.07 Shareholders' Funds

See **Net Assets**

15.08 Share Issue Expenses

Costs incurred in connection with the issue and allotment of shares. These include legal and professional fees, advertising expenses, printing costs, underwriting commission, brokerage, and also expenses in connection with the issue of prospectus and allotment of shares.

15.09 Share Premium

The excess of the issue price of shares over their face value.

15.10 Short-term Liability

See **Current Liability**

15.11 Sinking Fund

A *fund* created for the repayment of a *liability* or for the replacement of an asset.

15.12 Social Cost Benefit Analysis

The identification, measurement and reporting of *social costs* and *benefits* related to a project or an enterprise.

15.13 Social Cost

The cost or the loss to society resulting from the operations of an enterprise in its particular circumstances. Such costs are often not readily measurable in monetary terms. This term is also used in a specific sense to denote the costs incurred by an enterprise in providing social amenities.

15.14 Social Benefit

The benefits or income to society resulting from operations of an enterprise in its particular circumstances. Such benefits are often not readily measurable in monetary terms.

15.15 Standard Cost

A pre-determined *cost* of an activity, operation, process or product, established as a basis for control and reporting.

15.16 Straight Line Method

The method under which the periodic charge for *depreciation* is computed by dividing the *depreciable amount* of a *depreciable asset* by the estimated number of years of its useful life.

15.17 Subscribed Share Capital

That portion of the *issued share capital* which has actually been subscribed and allotted. This includes any *bonus shares* allotted by the corporate enterprise.

15.18 Substance over Form

An accounting concept according to which the substance and not merely the legal form of transactions and events governs their accounting treatment and presentation in financial statements.

15.19 Sundry Creditor

Amount owed by an enterprise on account of goods purchased or services received or in respect of contractual obligations. Also termed as **trade creditor** or **account payable**.

15.20 Sundry Debtor

Person from whom amounts are due for goods sold or services rendered or in respect of contractual obligations. Also termed as **debtor, trade debtor, account receivable**.

15.21 Surplus

Credit balance in the *profit and loss statement* after providing for proposed appropriations, e.g., *dividend* or *reserves*.

16.01 Test Check

Examination of representative items selected from an account or record for the purpose of arriving at an opinion on the entire account or record.

16.02 Trade Creditor

See **Sundry Creditor**

16.03 Trade Debtor

See **Sundry Debtor**

16.04 Trade Discount

A reduction granted by a supplier from the list price of goods or services on business considerations other than for prompt payment.

16.05 Transfer Price

The price charged (or value assigned) to a product or service which is transferred within an enterprise from one segment/division to another.

17.01 Unclaimed Dividend

Dividend which has been declared by a corporate enterprise and a warrant or a *cheque* in respect whereof has been despatched but has not been encashed by the shareholder concerned.

17.02 Unexpired Cost

That portion of an *expenditure* whose benefit has not yet been exhausted.

17.03 Unissued Share Capital

That portion of the *authorised share capital* for which shares have not been offered for subscription.

17.04 Unpaid Dividend

Dividend which has been declared by a corporate enterprise but has not been paid, or the warrant or *cheque* in respect whereof has not been despatched within the prescribed period.

17.05 Useful Life

Life which is either (i) the period over which a *depreciable asset* is expected to be used by the enterprise; or (ii) the number of production or similar units expected to be obtained from the use of the *asset* by the enterprise.

18.01 Value Added

The increase in value of a product or service resulting from an alteration in the form, location or availability excluding the cost of bought-out materials or services. This is also referred to as **added value**.

18.02 Value Added Statement

A statement of the value added that an enterprise has been able to generate and its distribution among those contributing to its generation. This is also referred to as **added value statement.**

18.03 Variable Cost

That *cost* which varies directly, or nearly directly, with the volume of activity.

19.01 Wasting Asset

Natural resource which is subject to *depletion* through the process of extraction or use e.g. mines, quarries.

19.02 Weighted Average Cost

See **Average Cost**

19.03 Working Capital

The funds available for conducting day-to-day operations of an enterprise. Also represented by the excess of *current assets* over *current liabilities* including short-term loans.

19.04 Work in Process

Work in Process includes all materials which have undergone manufacturing or processing operations, but upon which further operations are necessary before the product is ready for sale.

19.05 Written Down Value Method (W.D.V.)

See **Diminishing Balance Method**