

Glossary

A

Account

n. The detailed record of a particular asset, liability, owners' equity, revenue or expense.
v. Method of classifying, recording, and accumulating transactions (from which a balance sheet and income statement can be derived). An account is usually expressed in money. A separate account exists for each category of asset and liability, shareholder equity, revenues, and expenses.

Accountability

Obligation to give answers and explanations concerning one's actions. Internal accountability exists within organizations; an example is management's responsibility to a board of directors. External accountability denotes an organization's responsibility to shareholders, lenders, and the public. The Bank monitors borrower accountability through project reviews and auditing to ensure that Bank funds are used with economy and efficiency, and in support of good governance.

Accounting

Process of recording, measuring, interpreting, and communicating financial data for the purpose of decision making.

Accounting period

Time period covered by financial statements, usually a year, a quarter, or a month. The annual accounting period for financial statements may be based on a calendar or a fiscal year.

Accounting polices

The specific principles, bases, conventions, rules and practices applied by an entity in preparing and presenting financial statements

Accounting standards

Accounting principles after they have been established by an authoritative accounting rule-making body.

Accounts payable

Amounts due to others for goods and services purchased. They are usually payable within 12 months (from report date) and thus are classified as current liabilities on the balance sheet.

Accounts receivable

Amounts due from others for goods and services delivered in the normal course of business. Amounts due within one year of the report date conform to the definition of current assets. Any amounts known to be uncollectible within one year, but collectible after one year, should be listed as a separate line entry under non-current assets.

Accounts receivable turnover

Measurement arrived at by dividing annual net sales by the average accounts receivable. For an entity with a decreasing turnover rate, the longer receivables are held, the less likely they are to be collected.

Accretion

(a) Growth in assets through mergers, acquisitions, or internal expansion.
(b) Adjustment of the difference between the face value of a bond and the price of the bond bought at an original discount.

Accrual

The recognition of revenue when earned or expenses when incurred regardless of when cash is received or disbursed.

Accrual accounting

Accounting method that recognizes transactions and other events when they occur (and not as cash or its equivalent is issued or paid). The events are recorded in the accounting periods and reported in the financial statements of the periods to which they relate.

Accrued expense

Expenditure incurred in the current accounting period but not invoiced or paid by the end of the period. It is usually payable within 12 months.

Accrued liability

Liabilities which are incurred, but for which payment is not yet made, during a given accounting period. Some examples in a manufacturing environment would be: wages, taxes, suppliers/vendors, etc.

Accrued revenue

Revenue that has been earned and must be accounted for but is not received by the end of the reporting period.

Accumulated depreciation

The cumulative charges against the fixed assets of a company for wear and tear or obsolescence.

Acid test ratio

Stringent test of liquidity; also called quick ratio. The ratio is found by dividing the most liquid current assets (cash, marketable securities, and accounts receivable) by current liabilities.

Acquisition cost

Price paid to buy goods, services, or assets. It equals the list price plus normal incidental costs to acquire the item, such as taxes, preparation, transportation, and installation.

Additional paid-in capital

Excess received from stockholders over par value of the stock issued; also called contributed capital in excess of par. Additional paid in capital is shown in the shareholder equity section of the balance sheet.

Adverse Audit Opinion

The auditor's opinion accompanying a financial statement when the auditor concludes that qualification of the report is not adequate to disclose the misleading or incomplete nature of the financial statements.

Aging of receivables

Time analysis of accounts receivable in which they are classified as either current or past due. If past due, they are classed according to due date.

Amortization

Either (a) the retirement of debt on an installment or serial payment basis, or (b) the process of systematically charging off the cost of an intangible asset (e.g., goodwill, systems development, copyright) over its estimated useful life. The second meaning is similar to the depreciation of tangible assets.

Annual report

Annual statement, on either a calendar or a fiscal year basis, containing an entity's financial statements. The statements, such as balance sheet, income statement, and cash flow statement, include footnotes, supplementary schedules, management discussion and analysis of earnings, President's letter, audit report, accounting policies, and other explanatory data (e.g., on research and marketing efforts) helpful in evaluating the entity's financial position and operating performance. The annual report is read by stockholders, potential investors, creditors, employees, regulatory bodies, and others. The Bank reviews annual reports as part of monitoring projects and ensuring accountability.

Annuity

Series of equal periodic payments or receipts--for example, an investment that upon maturing provides payments of a fixed amount over a regular recurring period.

Appraisal

The act of appraising the value of an item or real property, usually performed as a service by someone recognized as an expert or certified by an organization as such, and usually on property of high value that may need to be bought, sold or insured.

Arbitrage

The movements of funds to take advantage of differences in exchange or interest rates; such movements quickly eliminate any such differences.

Asian Development Fund (ADF)

The Asian Development Fund (ADF) - ADB's "concessional", or "soft-loan" window -- is funded by ADB's donor member countries. ADF loans carry very low interest rates, and are for the poorest borrowing countries.

Asset

A resource controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity.

Asset turnover

Ratio revealing the efficiency of an entity's assets in generating revenue. A high ratio is desirable. What is considered high for one industry, however, may be considered low for another.

Assurance

Independent Professional Services that improve information quality or its context". Such services are very broad and could include assessments of various industries, e.g., Internet security or quality of health facilities.

Audit

The inspection of the accounting records and procedures of a business, government unit, or other reporting entity by a trained accountant for the purpose of verifying the accuracy and completeness of the records. It could be conducted by a member of the organization (internal audit) or by an outsider (independent audit). A CPA audit determines the overall validity of financial statements. A tax audit (IRS in the U.S.) determines whether the appropriate tax was paid. An internal audit generally determines whether the company's procedures are followed and whether embezzlement or other illegal activity occurred.

Audit opinion

See Audit Report

Audit report

Written report by an auditor in accordance with the terms of his appointment, in which he expresses his opinion as to the accuracy, fairness, consistency, and acceptability of the financial statements, in question, based upon generally accepted accounting principles. For the Bank's purposes, an audit report may extend beyond financial statements. There are four types of auditor's opinion: (a) unqualified, (b) qualified, (c) adverse, and (d) disclaimer or denial of opinion.

Auditing standards

Stated and regulated practices followed in the auditing of financial and other information. Such regulations may be either statutes, or statements issued by the regulatory or professional bodies in the countries concerned. International standards on auditing have been issued by the International Auditors Practices Committee of the International Federation of Accountants.

Auditor

Individual, partnership, company, or government agency that conducts an audit. The entity performs audits according to specified auditing standards

B**Bad debt**

Account or note receivable that proves to be entirely or partially uncollectible; also referred to as an uncollectible account receivable.

Balance of payments

Record of a country's measurable monetary transactions with the rest of the world during a particular period; composed of (a) the current account, (b) the capital account, and (c) gold and foreign exchange reserves.

Balance of trade

Record of a country's trade in goods with the rest of the world.

Balance sheet

Statement showing an entity's financial position at a certain date. It forms part of the financial statement. Measurements of financial position in the balance sheet are broadly classified under assets, liabilities, and equity.

Bankruptcy

A state of insolvency of an organization or individual, i.e. an inability to pay debts.

Base-cost estimate

Estimate of the expected cost of a project at the time specified (usually at the time of appraisal or negotiations). The estimate assumes no changes in project cost due to the estimated quantity or price of products.

Benchmark

A study to compare actual performance to a standard of typical competence; or, a standard for the basis of comparison as being above, below or comparable to.

Beneficiary

a person who benefits from the terms of a trust, pension or provident fund, or other deferred income plan, or an insurance policy. In banking, it is the person in whose favor a letter of credit is issued or a draft is drawn.

Benefit Monitoring and Evaluation (BME)

An instrument for assessing a project's socioeconomic impact on the target beneficiaries. BME comprises three sets of activities: (i) the preparation and analysis of benchmark (baseline) information on persons and population groups benefiting from the project as well as the affected population prior to the project's commencement, (ii) monitoring benefits delivered to intended beneficiaries during implementation, and (iii) evaluation of project impact a few years (usually three to five years) after completion when all project facilities and services have been fully developed.

Bid price

Price offered for a security or commodity by a prospective buyer.

Bookkeeping

Part of accounting that deals with the recording of actual transactions in monetary terms.

Breakeven analysis

Branch of cost-volume-profit (CVP) analysis that determines the break-even sales or cash point, or the level of sales at which total costs equal total revenue. A break-even chart plots sales revenue, variable costs, and fixed costs on the vertical axis and volume on the horizontal axis. The break-even point is the point at which the total sales revenue line intersects the total cost line.

Breakeven point

The volume point at which revenues and costs are equal; a combination of sales and costs that will yield a no profit/no loss operation.

Budget

An itemized listing of the amount of all estimated revenue which a given business anticipates receiving, along with a listing of the amount of all estimated costs and expenses that will be incurred in obtaining the above mentioned income during a given period of time. A budget is typically for one business cycle, such as a year, or for several cycles (such as a five year capital budget). Of the many kinds of budgets, a cash budget shows cash flow, an expense budget lists expected payments of money, and a capital budget shows the anticipated payments for capital assets.

Budgetary accounting

Contrary to financial accounting, looks forward: it measures the cost of planned acquisitions and the use of economic resources in the future.

Budgetary control

Actions carried out according to a budget plan. Through the use of a budget as a standard, an organization ensures that managers are implementing its plans and objectives. Their actual performance is measured against budgeted performance.

Budgeting

The documenting of intended expenditures over a specified time period (normally one year) along with proposals for how to meet them.

C

Capital

(a) In a business, the total amount of the owners' stake, represented by the difference between assets and liabilities. Also called equity or net worth. In a corporation, capital represents shareholder equity. Capital stock may consist of common and preferred stock. see paid-in capital. **(b)** Goods purchased for use in production. **(c)** Net working capital, which is the difference between current assets and current liabilities. **(d)** Long-term assets that are not bought and sold in the ordinary course of business. The term usually refers to fixed assets, such as machinery, equipment, buildings, and land.

Capital Adequacy

Requirement for firms conducting investment business to have sufficient funds.

Capital adequacy ratio (CAR)

The Basel Capital Accord provides a definition of capital, which is the numerator in the capital adequacy ratio and divides a bank's assets into four risk categories, each of which is assigned a risk weight (i.e. risk weighted capital assets). The risk assets are then added to form the denominator of the ratio (off-balance-sheet items are also included). The Accord calls for a minimum capital adequacy ratio of 8%.

Capital asset

Asset purchased for use in production over a long period rather than for resale. Capital assets include land, buildings, plant and equipment, mineral deposits, and timber reserves.

Capital budget

The estimated amount planned to be expended for capital items in a given fiscal period. Capital items are fixed assets such as facilities and equipment, the cost of which is normally written off over a number of fiscal periods. The capital budget, however, is limited to the expenditures that will be made within the fiscal year comparable to the related operating budgets.

Capital expenditure

The amount used during a particular period to acquire or improve long-term assets such as property, plant or equipment.

Capital gain (or loss)

Extent by which the net realized value of a capital asset exceeds (or is less than) the cost of acquisition plus additional improvements less depreciation charges where applicable.

Capital issue

Issue of securities to finance purchase of capital assets.

Capital market

Trading center for long-term debt instruments and corporate stocks. Capital markets provide a facility for governments and other entities to mobilize resources through issuing debt and equity capital.

Capital structure

Makeup of the different categories of long-term financing employed by an entity; represented by long-term debt, paid-in capital (including capital surplus), retained earnings, inappropriate reserves, and revaluation surplus. Capital structure is an important indication of the ability of an enterprise to survive adversity or fluctuating fortunes; it is distinguished from financial structure, which includes short-term debt and all reserves.

Capital structure covenants

Binding agreement that aims to apply standards of financial prudence by constraining the amount of long-term borrowing. The covenants are designed to ensure that the borrowing entity will be able to operate satisfactorily and meet all its financial obligations. Typical covenants are (a) absolute debt limitation, (b) debt-equity ratio, (c) debt service coverage, and (d) dividend limitation.

Capitalization

The statement of capital within the firm - either in the form of money, common stock, long-term debt, or in some combination of all three. It is possible to have too much capital (in which case the firm is overcapitalized) or too little capital (in which case the firm is undercapitalized).

Capitalize

In general business, it is to supply with capital, as of a business by using a combination of capital used by investors and debt capital provided by lenders; or, to consider expenditures as capital assets rather than expenses. Specifically, it is to: a) convert a schedule of income into a principal amount, called capitalized value, by dividing by a rate of interest; b) record capital outlays as additions to asset accounts, not as expenses; c) convert a lease obligation to an asset/liability form of expression called a capital lease, i.e., to record a leased asset as an owned asset and the lease obligation as borrowed funds; or d) turn something to one's advantage economically.

Cash

Money, in the form of notes and coins, which constitutes payment for goods at the time of purchase.

Cash accounting

A form of accounting that records transactions only as cash is received or paid, rather than as money is earned or costs are incurred. In cash accounting, related financial statements are usually restricted to a summary of receipts and payments.

Cash flow

Net amount of money generated or used from a given operation or asset for a given period.

Cash flow statement

Statement showing where a firm's cash comes from and on what it is spent. The net result is reflected in the balance of the cash account as of a certain date. In its most refined form, the statement explains and accounts for the flows of cash, rather than of working capital.

Cash management

Type of bank account available to business clients, which offers services such as debt collection and cash flow services.

Central bank

The bank that provides financial and banking services to the government of a country and its commercial banking system and which implements the government's monetary policy.

Chart of accounts

A list of ledger account names and associated numbers arranged in the order in which they normally appear in the financial statements. The Chart of Accounts are customarily arranged in the following order: Assets, Liabilities, Owners' Equity (Stockholders' Equity for a corporation), Revenue, and Expenses.

Cofinancing

Refers to a financing arrangement whereby one or more sources of official or commercial funds (other than contributions or loans from the borrowing or host developing member country [DMC] and its government agencies and debt and equity from project sponsors) join ADB in financing a project or program.

Commercial bank

A financial institution that provides commercial banking services. A commercial bank accepts deposits, gives business loans and provides other services to businesses.

Commitment Charge

A charge or fee levied by a lender on a borrower for the continuing availability of a line of credit (such as an ADB loan). The ADB levies a commitment charge on the unutilized portion of a loan from the ADB's ordinary capital resources (OCR) to a borrower for the continuing availability of the loan. It is designed to recover ADB's treasury costs. It closes when the entire line of credit is used, or when the loan is terminated. For all OCR Pool-based multicurrency and single currency loans, and Market-based loans to non-private sector organizations including financial intermediaries, the rate is 0.75% per annum on increasing portions of the loan commencing 60 days after loan signing. For Market-based loans to the private sector, the rate is 0.50% on increasing portions of the loan commencing 60 days after loan signing. The commitment charge is not levied for the first year providing 15% or more of the loan is drawn down, this concession continues for the second, third, and fourth years which require minimum percentages of drawdown of 45%, 85%, and 100% of the loan amount respectively.

Consolidated financial statement

Statement that presents the financial statements of a parent company and its subsidiaries as those of a single enterprise. In a consolidated financial statement, inter-company (subsidiary) items are netted out, but shareholdings in associated companies are shown as investments.

Constant price

See Real Price

Contingency

Condition or situation whose ultimate outcome (gain or loss) will be confirmed only upon the occurrence, or nonoccurrence, of one or more uncertain future events. Provisional amounts are usually included in budgets or expenditure forecasts in income statements to allow for expenditures of unknown or indefinable nature in the future. Usually these amounts are expressed as a percentage of total base-cost expenditures.

Contingency allowance

An allowance included in the project cost estimates to allow for adverse conditions that will add to base costs. Physical contingencies representing the monetary value of additional resources that may be required beyond the base cost to complete the project are included in the economic cost of a project. Price contingencies allow, for financing purposes, for general inflation during the implementation period but are not included in a constant price project statement.

Contingency plan

A plan that provides an outline of decisions and measures to be taken if defined circumstances, outside the control of the affected organization, should occur.

Contingent liability

(a) A possible obligation from past events that will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the enterprise; or (b) A present obligation from past events but is not recognized because (i) it is not probable that an outflow of resources will be required to settle the obligation; or (ii) the obligation cannot be measured reliably. Some examples: in corporate reports are pending lawsuits, judgments under appeal, disputed claims, and the like, representing potential financial liability.

Cost

The amount of money that must be paid to take ownership of something; expense or purchase price.

Cost accounting

System for recording and reporting, in aggregate and in detail, the cost of producing goods and performing services.

Cost-benefit analysis

The method of measuring the benefits anticipated from a decision by determining the cost of the decision, then deciding whether the benefit outweighs the cost of that decision.

Cost analysis

Examination of the cost of producing a particular product, normally undertaken before a project is begun.

Cost estimate

Forecast of probable cost to be incurred in the future.

Cost of capital

Calculated as a weighted average of the interest costs of debt and equity capital. Equity funds include both capital stock (common and preferred stock) and retained earnings. Costs of capital are usually expressed as annual percentage rates.

Cost of sales

Generally, the cost of goods sold during a given accounting period.

Cost overruns

The amount by which actual costs exceeds estimates.

Cost recovery

The extent to which user charges for goods and services recover the full costs of providing such services, including a return on capital employed. Can be defined in terms of financial cost recovery using financial costs or economic cost recovery using economic costs.

Covenant

Written pledge or promise. Typically a provision in an ADB loan agreement or contract whereby one or more parties undertake to do, or refrain from doing, a specific act.

Credit

In accounting, is an accounting entry system that either decreases assets or increases liabilities; in general, it is an arrangement for deferred payment for goods and services.

Credit enhancement

Increasing the creditworthiness of a loan, security issue, or other instrument by providing specific guarantees from third parties (including MIGA, ADB), or by attachment of specified assets.

Credit risk

The risk that a counterparty to a financial transaction will fail to fulfill their obligation.

Credit union

A non-profit organization accepting deposits and making loans, operated as a co-operative.

Creditor

The entities to which a debt is owed by another entity.

Current assets

Asset that can easily be converted to cash; also, one that will convert to cash or equivalent benefit within one year.

Current cost (of an asset)

The cost which would be incurred for replacement of an asset.

Current expenditure

Primarily an income statement classification. Expenditure that results in benefits realized within a short period, generally a year. Sometimes referred to as recurrent or revenue expenditure.

Current liability

Primarily an income statement classification, encompassing a debt or other obligation coming due within a year of the balance sheet date.

Current price

Prices prevailing during the current accounting period. They are nominal prices (i.e., unadjusted) and should not be confused with present prices.

Current ratio

A comparison of current assets to current liabilities, is a commonly used measure of short-run solvency, i.e., the immediate ability of a firm to pay its current debts as they come due. Current Ratio is particularly important to a company thinking of borrowing money or getting credit from their suppliers. Potential creditors use this ratio to measure a company's liquidity or ability to pay off short-term debts. Though acceptable ratios may vary from industry to industry below 1.00 is not atypical for high quality companies with easy access to capital markets to finance unexpected cash requirements. Smaller companies, however, should have higher current ratios to meet unexpected cash requirements. The rule of thumb Current Ratio for small companies is 2:1, indicating the need for a level of safety in the ability to cover unforeseen cash needs from current assets. Current Ratio is best compared to the industry.

D

Debenture

Long-term debt instrument that is a corporate security backed by the general credit of the issuer rather than by a lien on specific assets. The order of any prior claims is set forth in the debenture. Typically, in the event of liquidation, debentures have a low recovery ranking.

Debt

The amount due by a customer in respect of goods supplied or services rendered by you.

Debt financing

Raising money through selling bonds, notes, or mortgages or borrowing directly from financial institutions. You must repay borrowed money in full, usually in installments, with interest. A lender incurs risk and charges a corresponding rate of interest based on that risk. The lender usually assesses a variety of factors such as the strength of your business plan, management capabilities, financing, and your past personal credit history, to evaluate your company's chances of success.

Debt limitation covenant

Form of capital structure covenant in a loan agreement designed to maintain a capital structure that ensures an entity's ability to service the debt. A debt limitation covenant can be used to regulate internally a borrower's future

Debt restructuring

(a) Adjustment or realignment of debt structure, reflecting concessions granted by creditors to assist the debtor to meet financial obligations. Restructuring is needed when a debtor has severe financial problems, including those resulting from disagreements, legal action, or bankruptcy.

(b) Realignment of debt structure based on voluntary financial management decisions--for example, replacing short-term debt with long-term debt, or substituting debt for equity.

Debt security

Security representing money borrowed that must be repaid, e.g., a bond, bill, or note.

Debt service

Aggregate amount (usually per annum) of amortization, interest, and other charges on debt. Amortization includes sinking fund payments, if any. In the case of Bank loans or credits where only a portion has been drawn down by the borrower, debt service also includes a commitment charge on the unutilized portion.

Debt service coverage covenant

Form of capital structure covenant related to debt and equity and designed to ensure that an entity can meet its debt obligation from operational cash flow.

Debt service ratio

The measurement of debt payments to gross income.

Debt-Equity ratio

Measure used in the analysis of financial statements to show the amount of protection available to creditors. The ratio equals long-term debt divided by total shareholder equity. Generally the higher the ratio, the higher the financial risk.

Debtor

Person or entity owing money to another person or entity; also refers to accounts receivable.

Deferred charge

Charge or form of asset whose benefits accrue in an accounting period subsequent to the one in which it was paid (incurred).

Deferred taxes

A liability recorded on the balance sheet that results from income already earned and recognized for accounting purposes, but not for tax purposes. In other words, the income has been realized but the tax on that income has yet to be paid.

Depreciation

The amount of expense charged against earnings by a company to write off the cost of a plant or machine over its useful life, giving consideration to wear and tear, obsolescence, and salvage value. If the expense is assumed to be incurred in equal amounts in each business period over the life of the asset, the depreciation method used is straight line (SL). If the expense is assumed to be incurred in decreasing amounts in each business period over the life of the asset, the method used is said to be accelerated. Two

commonly used variations of the accelerated method of depreciating an asset are the sum-of-years digits (SYD) and the double-declining balance (DDB) methods. Frequently, accelerated depreciation is chosen for a business' tax expense but straight line is chosen for its financial reporting purposes.

Derivative

A transaction or contract whose value depends on or, as the name implies, derives from the value of underlying assets such as stock, bonds, mortgages, market indices, or foreign currencies. One party with exposure to unwanted risk can pass some or all of the risk to a second party. The first party can assume a different risk from a second party, pay the second party to assume the risk, or, as is often the case, create a combination. Derivatives are normally used to control exposure or risk.

Disbursement

Payment of funds from the loan account of a borrower. Bank disbursements are made either directly to the borrower as reimbursement for expenditures already incurred on items provided for in the project, or as direct payments on behalf of the borrower to consultants, suppliers, or contractors.

Disclaimer of opinion

Statement by an auditor refusing to express an opinion on the financial statements of an entity.

Disclosure

An accounting principle that requires full (adequate) disclosure of all material (significant) matters affecting the financial statements that would be of interest to a concerned investor or creditor.

Discount rate

Interest rate used to convert future receipts or payments to their present value. The cost of capital may be used as the discount rate under the net present value method.

Dividend

Distribution of earnings paid to stockholders based on the number of shares they own. The most typical type is cash, but dividends may also be issued in such forms as stock and property.

Dividend limitation

Provision in a contract or agreement that limits the amount of dividend that an entity can pay to its owners. Usually the agreement is between the entity and its lenders. A form of debt service coverage covenant.

Dividend yield

Ratio providing an estimate of the return per share on a stock investment based on the market price at the end of the reporting period. The ratio equals dividends per share

divided by market price per share. A disadvantage of this ratio is the timing mismatch between the numerator, which is based on the dividend declaration date, and the denominator, which is based on the yearend market price of the stock.

E

EBITDA (Earnings before Interest, Taxes, Depreciation, and Amortization)

In accounting, EBITDA stands for "Earnings before Interest, Taxes, Depreciation, and Amortization" (sometimes named OIBDA for operating income before depreciation and amortization). Which as the name suggests is earnings excluding expenses from depreciation, amortization, interest, and taxes (earnings + ITDA), in the order the usually appear on the income statement, up to down. It's the operating income with expenses for depreciation and amortization backed out.

Earning power

Earnings before interest and taxes (EBIT) divided by total assets.

Economic internal rate of return (EIRR).

The rate of return that would be achieved on all project resource costs, where all benefits and costs are measured in economic prices. The EIRR is calculated as the rate of discount for which the present value of the net benefit stream becomes zero, or at which the present value of the benefit stream is equal to the present value of the cost stream. For a project to be acceptable the EIRR should be greater than the economic opportunity cost of capital.

Economic viability

The assessment that increases in output produced by a project using the least cost method will recover costs, provide an additional required rate of return, and sustain effective production in the face of uncertainty and risk.

Enterprise

An organization created for business ventures.

Entity

In business, is a separate or self-contained existence that provides goods or services.

Equity

The residual interest in the assets of the entity after deducting all its liabilities.

Equity capital

Company's issued (or paid-up) share capital, without limitation or preference in how profits are distributed or how assets are ultimately distributed.

Equity financing

Investment that confers whole or partial ownership in an enterprise and entitles the investor to share in profits from its operation.

Exchange rate

The rate at which one currency can be traded for another.

Executing Agency (EA)

An organization charged by a borrower with the implementation of an ADB-funded project.

Expenditure

A cost incurred in the normal course of business to generate revenues.

Expenses

The daily costs incurred in running and maintaining a business.

External audit

An audit conducted by an individual of firm that is independent of the company being audited. These independent auditors audit the books of a company generally once per year after the completion of the company's fiscal year. Their role is to give an opinion of the financials statement's reflection of the status and operations of the company being audited. Based on what they witness during the audit they will also produce, for management and board utilization, a management letter. Although a financial statement audit is the most common type of external audit, external auditors may also conduct special purpose audits which might include; performing specific tests and procedures and reporting on the results, a less intensive review, and compilations.

External auditor

An auditor, usually working for an audit firm, that is completely independent of the company it is auditing. External auditors should always be certified by a professional association of accountants, and should be selected by, and report to, the corporation's board of directors.

F**Face value**

Nominal amount of a debt obligation (e.g., note, bond, mortgage) or equity security as stated in the instrument. The same as par value. It excludes interest and dividends. The face value of an instrument is often different from its issuance price; for example, a bond may be issued at a bond discount or bond premium. Also, after issuance, the market price of an instrument will typically differ from its face value. At maturity, the debt instrument will be redeemed at its face value.

Fiduciary

A person or business (for example, a bank or stock brokerage) who has the power and obligation to act for another (often called the beneficiary) under circumstances which require total trust, good faith and honesty.

Finance lease

The lessor expects to recover the full cost (or almost the full cost) of the asset plus interest, over the period of the lease.

Financial accounting

Process of recording, classifying, and compiling financial transactions in a manner appropriate to determine (a) the financial performance of an entity, and (b) its status and financial relationship to other entities and persons. This process is performed in conformity with generally accepted accounting principles. Financial accounting relates to the preparation of financial statements for external users, such as creditors, investors, and suppliers. These statements, including the audit report and management's discussion of operations, appear in the annual report.

Financial analysis

Transformation of financial data into a form that can be used to monitor and evaluate an entity's financial position, plan future financing, and assess the entity's size and growth rate. Financial analysis includes the use of financial statement analysis and financial projections.

Financial forecast

Financial projection that assumes a most probable or realistic scenario.

Financial information system

System that accumulates and analyzes financial data to aid financial management decisions in running a business. The basic objective of the system is to meet the firm's financial obligations as they come due, using the minimum amount of financial resources consistent with an established margin of safety. System outputs include accounting reports, operating and capital budgets, working capital reports, cash flow forecasts, and various "what if" analyses. The evaluation of financial data may be performed through ratio analysis, trend evaluation, and financial planning modeling.

Financial Institution (FI)

An institution (public or private) that collects funds (from the public or other institutions) and invests them into financial assets.

Financial intermediary

Originally an intermediary between the U.S. Treasury (or equivalent) and the market. A variety of financial intermediaries now exist (e.g., commercial banks, development banks, savings and loans associations, microfinance organizations, pension funds). These organizations facilitate the transfer of funds from financial surplus units to those who need or that can better utilize financial resources.

Financial Internal Rate of Return (FIRR)

The rate of return that would be achieved on all project costs, where all costs are measured in financial prices and when benefits represent the financial revenues that would accrue to the main project participant. The FIRR is the rate of discount for which the present value of the net revenue stream becomes zero, or at which the present value of the revenue stream is equal to the present value of the cost stream. It should be compared with the opportunity cost of capital, or the weighted average cost of capital, to assess the financial sustainability of a project.

Financial management

Process of financial decision making based on planning, forecasting, organizing, controlling, and communicating financial and physical data to achieve optimum financial and economic benefits from an investment. Financial management may incorporate one or more of the following: managerial accounting, financial accounting, and cost accounting.

Financial market

Market for the exchange of credit and capital in the economy. It is divided into the money market and the capital market.

Financial model

Mathematical model describing the relationships among financial variables of a firm. A functional branch of a general corporate planning model, it is used essentially to generate pro forma financial statements and financial ratios. The basic tool for budget planning, it is also used for risk analysis and "what if" experiments. Many financial models use special modeling languages and spreadsheet programs.

Financial position

The status of a firm's or individual's assets, liabilities, and equity positions as reflected on its financial statement. Also called Balance Sheet.

Financial projection

Essential element of planning; the basis for budgeting and estimating future financing needs of a firm. The steps in financial forecasting are (a) projecting the firm's income; (b) projecting variables, such as expenses, revenues, and assets; (c) estimating the level of investment in current and fixed assets required to support the projected income; and (d) calculating the firm's financing needs.

Financial ratio

Mathematical relationship between financial variables of business. There are many categories of ratios, including those that evaluate an entity's liquidity, solvency, return on investment, operating performance, asset utilization, and market measures. While computing a ratio is a basic arithmetical operation, its analytical interpretation is more complex. A financial ratio should be computed only if the relationship between accounts or categories has significance. To be meaningful, a given financial ratio of a company for a given year must be compared with (a) prior years (to examine the trend), (b) the industry norm, and (c) competing companies.

Financial report

Could contain financial statements, annual report, SEC Form 10-K, and/or prospectus among other documents, i.e. there is no set format.

Financial reporting

Presenting financial data on a company's position, operating performance, and funds flow for an accounting period. Financial statements and related information may be issued in various forms for external use, such as in the annual report.

Financial reporting period

See Fiscal Year

Financial risk

Portion of total corporate risk, over and above basic business risk, that results from using debt. Business risk is caused by fluctuations of earnings before interest and taxes (operating income).

Business risk depends on variability in demand, sales price, and input prices, and amount of operating leverage. Financial risk includes the risk that the borrower will be unable to make interest payments or principal repayments on debt. The greater a firm's financial leverage, the higher its financial risk.

Financial statement

Statement containing financial information about an organization. A set of financial statements usually includes a balance sheet, income statement, sources and applications of funds statement (sometimes referred to as a cash flow or funds flow statement) and the notes to the financial statements. Financial statements may be combined with various supplementary statements to form the financial report on the status and performance of the organization.

Financial structure

How a firm's ASSETS are financed, constituting the entire right side (liabilities and equity) of the balance sheet. It is broader than capital structure because it also includes short-term debt and all reserves.

Financial sustainability

The assessment that a project will have sufficient funds to meet all its resource and financing obligations, whether these funds come from user charges or budget sources; will provide sufficient incentive to maintain the participation of all project participants; and will be able to respond to adverse changes in financial conditions.

Financial viability

The ability of an entity to continue to achieve its operating objectives and fulfill its mission over the long term.

Financial year (see Fiscal Year)

Period of twelve months, beginning anywhere in the calendar year, used for company accounting purposes.

Fiscal year

Twelve consecutive months used by a business to account for and report on its operations, especially to determine profit or loss. Many entities use the natural business year, that is, a year ending at the annual low point in business activity or at the end of a season. Sometimes referred to as financial year.

Fixed asset

Item that has physical substance and an economic life in excess of one year. It is bought for use in the operation of the business and not intended for resale to customers. With the exception of land, fixed assets are subject to depreciation. Term usually refers to property and plant and equipment.

Fixed charge

Cost that does not vary in amount with the level of output, particularly a fixed financial cost, such as interest, a lease payment, or a sinking fund payment.

Forecast

To estimate or calculate expected business results in advance. To plan the business course for the future. A document that sets down the plan.

Foreign exchange

Currency of a foreign country, and the buying and selling of such services.

Foreign exchange cost

Generally, for Bank projects, the sum of (a) direct payments made in currencies other than the currency of the borrowing country for equipment and materials, consulting services, and contractors (including depreciation on imported plant and equipment); and (b) estimates of the import component (raw materials, fuel, and--for imported plant and equipment--depreciation) embodied in goods and services that are paid for in local currency. Where present, these two elements should be reflected in the foreign costs column of each project's cost table.

Foreign exchange rates

In finance, the exchange rate between two currencies specifies how much one currency is worth in terms of the other.

Foreign exchange risk

Risk taken in buying or selling foreign currency.

Free cash flow

Net income plus non-cash charges to income, specifically depreciation and amortization less capital expenditures, to sustain the basic business.

Fund

A pool of money normally set apart for a purpose, for example, a pension fund to provide pensions.

Funds flow

Though this term is often (incorrectly) used interchangeably with cash flow, funds flow focuses on increases and decreases in a firm's working capital (cash and cash equivalents) between two points in time, usually the beginning and end of the fiscal year or defined intermediate or longer term period.

G**Generally Accepted Accounting Practices (GAAP)**

A recognized common set of accounting principles, standards, and procedures. GAAP is a combination of accepted methods of doing accounting and policy board set authoritative standards.

Going concern

An enterprise that is normally viewed as continuing in operation for the foreseeable future, having neither the intention nor the necessity of liquidating or materially curtailing the scale of its operations. General assumption used in preparing financial statements.

Goods

Items of merchandise, finished products, supplies, or raw materials. Sometimes the term is extended to cover all inventory items or assets, such as cash, supplies, and Fixed assets.

Governance

The manner in which power is exercised in the management of a country's economic and social resources for development. ADB regards good governance as synonymous with sound development management. It involves both the public and private sectors. It includes the effectiveness with which development assistance is used, and has a direct effect on the impact of development programs and projects (including those financed by ADB).

Grant

Funds provided by a government, government body or other institution.

Gross margin

The ratio of gross profit to sales revenue. (sometimes used as a synonym for gross profit). For a manufacturer, gross margin is a measure of a company's efficiency in turning raw materials into income; for a retailer it measures their markup over wholesale. gross margin is gross income divided by net sales, expressed as a percentage.

Gross National Product (GNP)

The total dollar value of all final goods and services produced for consumption in society during a particular time period. The GNP does include allowances for depreciation and indirect business taxes such as those on sales and property. Gross national product is the output of labor and property of US nationals regardless of the location of the labor and property. Gross National Product includes income earned by the factors of production (assets and labor) owned by a country's residents but excludes income produced within the country's borders by factors of production owned by nonresidents.

Gross sales

Total sales before sales discounts and sales returns and allowances. It equals total unit sales times the selling price per unit.

Growth rate

The percentage change per period (typically per year).

Guarantee

n. It is a document stating that goods or services are of good quality.

v. It is a promise to pay the debt of someone else in the event that the debtor defaults. A guarantee is not to be confused with indemnity.

Guarantor

A person who guarantees, if necessary, to pay someone else's debt.

H

Hidden reserves

Results from the practice of understating the value of certain assets in financial reports, with the corresponding understatement on reported reserves. This practice is common among banks in some countries.

Historical cost (see Acquisition Cost)

Original cost incurred at the date an asset (or service) is acquired. It could also be the value of an identical item received through exchange, plus or minus any payment made or received as part of the exchange.

Hyperinflation

Situation in which a country experiences a cumulative inflation rate over three years approaching or exceeding 100 percent.

**Idle capacity**

Presence of unused capacity; the difference between practical capacity and operating capacity.

Illiquid

When cash flows generated by the firm are insufficient to meet the debt service. When speaking of money or an economy: being very liquid means it is driven primarily by cash, checking/saving accounts, treasury bills, stocks and bonds, etc; while being very illiquid means it is driven primarily by human capital.

Imputed cost

Cost that (a) does not at any time involve actual cash outlay, and (b) does not appear in accounting records but is relevant to the decision at hand. Some costs, such as interest, may have to be imputed for tax purposes despite the lack of a cash outlay.

Income

- (a) During an accounting period, revenue earned that results in an increase in total assets.
- (b) Revenue arising from sales of goods and services.
- (c) Excess of revenue over expenses and losses for an accounting period (i.e., net income).

Income statement

Form showing the elements used in arriving at an entity's net income for the accounting period; also called a profit and loss statement. Also called result of operations.

Income tax

Government levy on the net earnings of an individual, corporation, or other taxable unit. The TAX rate is usually graduated as earnings go from one tax bracket to another. The income tax provision is shown as an expense in the income statement.

Incorporation

Legal authorization from a state or other political authority for an entity to operate according to its approved articles of incorporation or charter. Incorporated entities share basic attributes: an exclusive name, continued existence independent of shareholders or members, paid-in capital, and limited liability.

Incremental

Is increasing gradually by regular degrees or additions.

Incremental cost

All additional costs that result from the execution of a project (or from the addition of one unit of output).

Indexation

Normally, adjustment of costs and income for general price-level changes.

Indicator

Measurable variable used to suggest overall change among a group of linked variables too complex to yield to simple analysis. Thus a variety of economic indicators - such as price, income, imports, exports, money supply and so on - are studied in an attempt to estimate the state of a national economy.

Indirect cost

Expense that is not directly incurred for one specific activity or unit of production. General administration expenses are an example.

Ineligible items

Items that are not eligible, as a rule, for LCF include taxes and duties, costs of land acquisition and payments of rights-of-way, working capital other than incremental and initial working capital, interest and financial charges other than those on ADB loans, and expenditures not directly attributable to ADB-financed projects.

Inflation

An increase in the general price level of goods and services; alternatively, a decrease in the purchasing power of the dollar or other currency.

Inflation rate

The annual rate of change of the price index.

Institution

Organization, particularly one concerned with the promotion of a specific subject or some public object.

Intangible asset

Right or other nonphysical resource that is presumed to represent an advantage to a firm in the marketplace. Such assets include copyrights, patents, trademarks, goodwill, technical information, capitalized advertising costs, organization costs, licenses, leases, franchises, exploration permits, and import and export permits.

Interest

In law, is a right or legal share of something or a financial involvement with something; in finance, it is a fixed charge for borrowing money; usually a percentage of the amount borrowed.

Interest coverage ratio

Ratio that equals income, before interest and taxes, divided by interest. The ratio reveals the number of times interest is covered by earnings. A potential creditor likes to see a high ratio because it indicates that a company is able to meet its interest obligations easily.

Interest During Construction (IDC)

Interest payable on long-term or short-term debt incurred to finance capital works (e.g., plant or road construction in progress in a fiscal year). Financing charges, including commitment charges, are also included. IDC is frequently capitalized (or charged to the project cost) until the asset is commissioned or treated as a capital expenditure item and transferred to a deferred charges or deferred capital expenditure account.

For Bank projects, IDC is computed as part of project costs to determine total financing requirements.

Interest rate

The rate of interest charged for the use of money, usually expressed as an annual rate. The rate is derived by dividing the amount of interest by the amount of principal borrowed.

Intermediation cost

In finance, is the cost involved in the placement of money with a financial intermediary. The person or institution empowered as the intermediary to make investment decisions for others. Examples: banks, savings and loan institutions, insurance companies, brokerage firms, mutual funds, and credit unions.

Intermediation cost ratio

Ratio of non-interest expenses to total income of a FI. (Measures the efficiency of banking operations).

Internal audit

An independent appraisal function established within an organization to examine and evaluate its activities as a service to the organization. The objective of internal auditing is to assist members of the organization in the effective discharge of their responsibilities. To this end, internal auditing furnishes them with analyses, appraisals, recommendations, counsel, and information concerning the activities reviewed. The audit objective includes promoting effective control at reasonable cost.

Internal auditor

An auditor who works directly for a company auditing its activities throughout the year. Internal auditors of corporations are often not certified auditors, though they usually have significant accounting experience. They should report directly to the board of directors of the corporation.

Internal cash generation

Gross income from all sources less all administrative and operating expenditures, excluding depreciation, interest, and other non-cash charges, but including taxes.

Internal check

Accounting procedure or physical control to safeguard assets against loss due to fraud or other irregularities. Internal check is an element of internal control. Weak internal check mechanisms mandate a greater degree of auditing procedures.

Internal control

Plan of organization and all the methods and measures used by an entity to monitor ASSETS, prevent fraud, minimize errors, verify the correctness and reliability of accounting data, promote operational efficiency, and ensure that established managerial policies are followed. Accounting controls encompass safeguarding assets and the accuracy of financial records. They are designed to assure that transactions are properly authorized and are recorded to allow for financial statement preparation in accordance with generally accepted accounting principles.

Internal Rate of Return (IRR)

Rate of return that equates the present value of future cash flows to the initial investment. Also referred to as the yield on investments.

International Accounting Standards (IASs)

Standards issued by the International Accounting Standards Committee (IASC) to bring direction and uniformity to the practice of professional accounting in different countries. These standards do not override regulations laid down by regulatory bodies in the countries concerned. IASC is the international body recognized by the International Federation of Accountants (IFAC). International accounting standards are recommended by the Bank for use in countries where national standards have not been fully developed.

International Standard on Auditing (ISA)

Standards formulated by the IFAC for the purpose of standardizing audit practices among countries and achieving international uniformity within the profession. The Bank encourages the use of international standards on auditing.

Inventory

For companies: includes raw materials, items available for sale or in the process of being made ready for sale (work in process); for securities: it is securities bought and held by a broker or dealer for resale.

Inventory turnover

Ratio of annual sales to inventory, showing how many times the inventory of a firm is sold and replaced during an accounting period. Computed as cost of sales divided by the average inventory of finished goods (valued at cost).

Invested capital

Equity plus long-term debt. In calculating the return on investment, it is preferable to use the total asset base as invested capital. However, when assessing the effectiveness of assets employed, it may be preferable to include only the investments in those assets employed in the enterprise's operations.

Investment

The purchase of real property, stocks, bonds, collectible annuities, mutual fund shares, etc, with the expectation of realizing income or capital gain, or both, in the future. Investment is longer term and usually less risky than speculation.

Investment funds

A collective investment scheme as defined under the laws of the local jurisdiction.

J**Japan Special Fund (JSF)**

JSF, which is made available on an untied grant basis by the Government of Japan, is designed to support ADB's TA and equity investment operations.

Joint financing

Co-financing operation for which (a) a common list of goods and services exists, and (b) disbursements for all or certain items are shared by the Bank and the co-lender in agreed proportions.

Joint venture

Specific business undertaken jointly by two or more entities. Joint ventures are often formed when one party lacks technological expertise, financial resources, government ties, a distribution network, or manufacturing capability. They may also be formed when partners wish to create separate venture operations and their own parent company balance sheet

L**Lease**

A contract where a party being the owner (lessor) of an asset (leased asset) provides the asset for use by the lessee at a consideration (rentals), either fixed or dependent on any variables, for a certain period (lease period), either fixed or flexible, with an understanding that at the end of such period, the asset, subject to the embedded options of the lease, will be either returned to the lessor or disposed off as per the lessor's instructions.

Lending

Temporary grant of money, goods, equipment, people and so on, made on the understanding that the thing lent, or its equivalent, will be returned, often with an additional (interest) payments.

Letter of credit (L/C)

A legal document issued by a buyer's bank that upon presentation of required documents payment would be made. Usually confirmed by the seller's bank, protection is given to the seller that payment will be made if the goods are shipped correctly, and protection is given to the seller that the goods will be shipped before payment is made.

Leverage

Ability of fixed costs to magnify returns to a firm's owners. operating leverage, a measure of operating risk, refers to the fixed operating costs found in a firm's income statement. financial leverage, a measure of financial risk, refers to financing a portion of the firm's assets bearing fixed financing charges in hopes of increasing the return to owners. Total leverage is a measure of total risk. The way to measure total leverage is to determine how Earnings Per Share (EPS) are affected by a change in sales.

Leverage is using given resources in such a way that the potential positive or negative outcome is magnified.

Liability

Present obligation of the entity arising from past events, the settlement of which is expected to result in and outflow from the entity of the resources embodying economic benefits.

LIBOR (London Interbank Offered Rate)

The rate that the most creditworthy international banks that deal in Eurodollars charge each other for large loans. It is equivalent to the federal funds rate in the U.S.

Line of credit

Arrangement whereby a financial institution (bank or insurance company) commits itself to lend up to a specified maximum during a specified period. Usually a commitment charge is levied on the unused funds during the contractual period.

Liquid asset

Cash and any asset that can quickly be converted into cash (e.g., cash, checks and easily-convertible securities).

Liquidation

Process of closing a business entity, including selling or disposing of the assets, paying the liabilities, and returning the balance (if any) to the owners.

Liquidity

Ability of current assets to meet current liabilities when due. An asset's degree of liquidity is the time period anticipated until the asset is realized or otherwise converted into cash. A liquid company has less risk of being unable to meet debt obligations than an illiquid one.

Liquidity covenant

Provision in an agreement concerned with maintaining adequate financial liquidity of an entity. Typical liquidity covenants are the current ratio and the dividend limitation covenants.

Liquidity indicator

Liquidity indicators are intended to measure the adequacy of an enterprise's working capital, i.e., an excess of current assets over current liabilities, to meet its current obligations in a timely manner and conduct its operations effectively without financial constraints.

Liquidity ratio

Measures of a business entity's liquidity, such as the current ratio, acid test ratio, accounts receivable turnover, and inventory turnover .

Loan

An agreement under which an owner of assets (the lender) allows another entity (the borrower) to use the assets for a specified time period. In return, the borrower agrees to pay the lender a payment (interest) and return the assets (cash) at the end of the agreed upon time period.

Loan capital

Forms of debentures and other long-term loans to a business.

Loan covenant

A legally enforceable promise or restriction in a mortgage. For example, the borrower may covenant to keep the property in good repair and adequately insured against fire and other casualties. A breach of covenant in a mortgage usually creates a default, defined by the mortgage, and can be the basis for foreclosure.

Loan loss ratio

Indicates extent of uncollectible loans over the last period. Any loan more than one year past due should automatically be considered uncollectible.

Loan period

Total number of years from a Bank loan's date of effectiveness, which normally falls three months after signature, to its last payment (including the grace period).

Local cost

In a Bank-assisted project, the local currency value of all goods and services that are procured for the project and are assumed to be produced within the country. Local cost excludes the value of supplies that are imported into the country, independently of the project, and that form the indirect foreign component. Local costs are sometimes called onshore costs.

Local currency

Currency of a foreign country with which an exporter or trader is dealing.

Long-term asset

ASSET whose future benefit is expected for a number of years; includes such non-current assets as buildings and equipment.

Long-term debt

Debt that does not come due within one year.

Long-term liability

Liabilities of a business that are due in more than one year. An example of a long-term liability would be a mortgage payable.

M**Management accounting**

The process of identification, measurement, accumulation, analysis, preparation, interpretation, and communication of financial information used by management to plan, evaluate, and control within an organization and to assure appropriate use of and accountability for its resources. Management accounting also comprises the preparation of financial reports for non-management groups such as shareholders, creditors, regulatory agencies, and tax authorities.

Management information system (MIS)

Computer-based or manual information system to aid decision making. An MIS generally performs three functions:

- (a) generating reports (e.g., financial statements, inventory status reports, or performance reports);
- (b) answering "what if" questions asked by management; and
- (c) supporting decision making. An MIS is sometimes also called a decision support system (DSS). It attempts to integrate the decision maker, the data base, and the quantitative models being used.

Management Letter

Identifies issues not required to be disclosed in the Annual Financial Report but represent the auditor's concerns and suggestions noted during the audit.

Management Representation Letter

A letter from the entity's management to its auditors assuring (or making representations) that all financial information has been provided, the information is complete to the best of their knowledge and no material misstatements exist.

Margin (see Gross Margin)

Difference between realized sales and the cost of goods sold, expressed as unit value percentage or total value. Since the margin may be calculated at different stages, the terms net and gross are used to differentiate the levels.

Marginal cost

Change in total cost for an extra unit of production. It is useful to calculate marginal cost to determine whether the rate of production should be changed. In general, as activity increases, economies of scale set in because of greater experience and manufacturing efficiency. Eventually, however, diseconomies of scale (e.g., increased management

supervision needs) occur, causing marginal costs to rise. When a company is at optimum output, marginal cost coincides with average total unit cost. The marginal cost curve is usually shown as a U-Shape on a graph.

Market failure

Inability of the market to function in its normal manner.

Market price

Price at which a security or commodity is quoted or offered for sale.

Market risk

The risk that the value of your investment will decrease due to moves in market factors.

Market value

In general, 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.

Maturity

Due date of a debt, at which time the principal and outstanding interest must be repaid fully.

Maturity mismatch

For a financial institution, a mismatch between the maturity terms of its borrowings and its loans. This condition could mean, for example, that borrowings a bank has made on the capital market to finance certain loans it has made are due before it has received the money from the loans. A significant maturity mismatch creates risk, particularly when interest rates are volatile.

Maturity risk

Maturity risk relates to mismatching of investments and borrowing operations.

Micro-finance

A financing mechanism designed to provide small loans/credit to poor people (farmers, small entrepreneurs) at, or immediately above, the poverty level to stimulate productive activities at low cost with the overall objective of raising the economic performance of those at the poverty level.

Minority interest

The interest or percentage ownership of a group of stockholders who, in total, own less than 50% of the shares in the corporation.

Money market

Market for short-term debt instruments, such as certificates of deposit, commercial paper, banker's acceptances, U.S. Treasury bills, and discount notes. These instruments are all liquid and tend to be safe.

N

Net assets

The difference between total assets and current liabilities including noncapitalized long-term liabilities.

Net cash flow

Equals cash receipts minus cash payments over a given period of time; or equivalently, net profit plus amounts charged off for depreciation, depletion, and amortization. also called cash flow. Net cash flow is a measure of a company's financial health.

Net income

Gross income from all sources less all administrative and operating expenditures, depreciation, taxes, and interest and other charges on debt.

Net loss

Amount by which total costs and expenses exceed total revenue for the accounting period.

Net operating income

Income after deducting for operating expenses but before deducting for income taxes and interest.

Net present value (NPV)

A method used in evaluating investments, whereby the net present value of all cash outflows (such as the cost of the investment) and cash inflows (returns) is calculated using a given discount rate, usually required rate of return. An investment is acceptable if the NPV is positive. In capital budgeting, the discount rate used is called the hurdle rate and is usually equal to the incremental cost of capital.

Net profit

See Net Income

Net worth

Total assets less total liabilities. Net worth represents shareholder equity.

Nominal

Means small payment, or value.

Nominal interest rate

Contracted or stated interest rate, not deflated for price-level changes.

Non-current assets

Includes PPE (property, plant and equipment) as opposed to current assets which includes cash, cash equivalents (e.g. securities, short-term notes, etc.), inventory and accounts receivable.

Non-revenue-earning entity

An entity typically implementing a Bank-financed project that does not seek cost recovery for a substantial amount of the costs incurred, nor recovery of the costs of the entity's non-Bank-financed operations.

Non-revenue-earning Project

Project for which cost recovery is not generally sought, or is partial or indirect. Non-revenue-earning projects are usually implemented and operated by public entities that are largely dependent on government budget allocations.

Note payable

Written promise to pay money at a future date. The payment consists of principal and usually interest. A note payable may be classified as either a current liability (due within one year or less) or a non-current one.

Note receivable

Written promise that money will be received at a future date, comprising principal and usually interest. A note receivable may be classified as either a current asset (due in one year or less) or a non-current one.

O**Objective**

A statement that is written in terms of specific measurable time-based and verifiable outcomes that challenge the organization to be more responsive to the environment to achieve the desired goals. Dependent upon usage, goals are general in nature, while objectives are specific, measurable and time-based. In some organizations, the meanings for goal and objective are reversed.

Obsolescence

Reduction or cessation of an asset's usefulness, resulting from technological or market changes, wear and tear from use, or natural deterioration. Obsolescence is a major factor in determining depreciation.

Onlending

Equivalent of re-lending in connection with new money loans. The funds are recorded as a deposit in the central bank, but the foreign bank and the contractual borrower (usually the central bank) agree that the loan proceeds will be made available to a third party within the country of the borrower.

Operating cost

Expenses incurred in the day-to-day running of a company.

Operating expenditures

Expenditure that is incurred in operating, maintaining, and administering an entity from day to day; usually expenditure on the physical and human resources necessary to operate and maintain the assets engaged in providing an output. The use of an asset is also recorded as an operating expenditure, in the form of a depreciation charge.

Operating expenses

All selling and general & administrative expenses. Includes depreciation, but not interest expense.

Operating income

Revenue less cost of goods sold and related operating expenses that are applied to the day-to-day operating activities of the company. It excludes financial related items (i.e., interest income, dividend income, and interest expense), extraordinary items, and taxes.

Operating ratio

Measures a firm's operating efficiency; calculated: company operating expenses divided by its operating revenues.

Operating ratio covenant

Form of revenue covenant that requires the borrower to set its tariffs at a level that meets a certain operating ratio; the ratio expresses operating costs including depreciation as a percentage of total operating revenue.

Operating revenue

Net sales plus other regular income sources related to the normal business operations of the entity.

Opportunity cost

The benefit foregone from not using a good or resource in its best alternative use.

Ordinary Capital Resources (OCR)

A pool of funds available for ADB's lending operations. These resources are replenished by borrowings from the world's capital markets. ADB has a triple-A credit rating. OCR loans are made at near-market terms to better-off borrowing countries.

Overhead cost

Cost of materials or services not directly traceable to a specific product but necessary for the productive or administrative process. Examples of such costs include general office salaries and apportioned costs of premises shared by multiple activities.

Over/under capitalization

Surplus or deficiency of permanent capital in relation to the current level of a business's activity.

Owners' equity

Interest of the owners in the assets of the business; the interest is represented by capital contributions and retained earnings.

P**Paid-in capital**

Capital received from investors for stock, equal to capital stock plus paid-in capital, NOT that capital received from earnings or donations. Also called contributed capital.

Paid-up capital

The total amount paid by shareholders for their shares of capital stock.

Parallel financing

Tied co-financing, that is a co-financing operation in which the ADB and another lender(s) finance defined and often different goods and services, or components, of a project.

Payable (see Liabilities)

Amount owed to another party. It is presented as a liability in the balance sheet. A payable is an item that is unpaid, whether or not due.

Payback period

In capital budgeting, is the length of time needed to recoup the cost of capital investment. The payback period is the ratio of the initial investment (cash outlay, regardless of the source of the cash) to the annual cash inflows for the recovery period. The major shortcoming for the payback period method is that it does not take into account cash flows after the payback period and is therefore not a measure of the profitability of an investment project. For this reason, analysts generally prefer the discounted cash flow methods of capital budgeting; primarily, the internal rate of return and the net present value methods.

Performance indicator

Those empirical data points that indicate how well, or poorly, an entity is performing against preset goals and objectives. Normally, in business or strategic planning, a company will set targets over a specified period that the business believes are attainable and track performance over time to those targets or objectives.

Physical contingency

Contingency allowance that reflects expected increase in the base-cost estimate of a Bank-financed project because of changes in quantities and methods of implementation. Physical contingencies are shown in the project cost table as a financial cost and as percentages of the base costs.

Portfolio

A term for describing all the investments that an entity owns. A diversified portfolio contains a variety of investments.

Predictability

Refers to the (i) the existence of laws, regulations, and policies to regulate society; and (ii) their fair and consistent application. The rule of law encompasses well-defined rights and duties, as well as mechanisms for enforcing them and settling disputes in an impartial manner.

Prepayment

Means repayment in advance of the maturity period specified in the loan agreement.

Present value

Discounted current worth of future cash flows from an investment.

The discounted value of a payment or stream of payments to be received in the future, taking into consideration a specific interest or discount rate. Present Value represents a series of future cash flows expressed in today's dollars. A given amount of money is almost always more valuable sooner than later, so present values are generally smaller than corresponding future values.

Price

See Real Price

Price contingency

A contingency allowance used in ADB project cost tables, that reflects expected cost increases due to changes in unit prices for the various project components/parts beyond the date of the base-cost estimate. Price contingencies in a RRP are expressed as percentages of the base costs plus physical contingencies, for the project as a whole and also separately for the local and foreign expenditures of the project.

Private company

One whose shares are not publicly traded and usually are owned by only a few people. A private company is distinguished from a public company, whose shares are traded on a stock exchange.

Procurement

From a business perspective, is the purchasing of services or materials.

Professional bodies

A professional body or professional organization is an organization, usually non-profit, that exists to further a particular profession, to protect both the public interest and the interests of professionals.

Profit margin

Ratio of net income to net sales.

Profitability

Company's ability to generate revenues in excess of the costs incurred in producing those revenues.

Profitability ratio

Measures of performance showing how much the firm is earning compared to its sales, assets or equity.

Program Loan

A program loan is provided by ADB to assist a developing member country (DMC) in developing a sector (or subsector, sectors) as a whole and improving the performance of a sector through appropriate policy and institutional improvements over the medium to long term. Program loans are relatively quick disbursing to cover the immediate adjustment costs arising from policy reforms. ADB makes program loans only to DMC governments.

Project appraisal

The assessment of the viability of proposed long-term investments in terms of shareholder wealth.

Project cost table

A summary of base costs, physical contingencies, and price contingencies (and where appropriate, risk contingencies) to determine the estimated total cost of a Bank-financed project.

Project design

Project design is an evolving process from the time of conceptualization at the CSP stage through design stage to Board approval of the project.

Project framework

A design tool that logically links the goal or rationale of a project, its objectives, inputs and activities, expected outputs, key indicators, key risks and assumptions, the analysis that needs to be undertaken, the manner in which data is collected, the expected beneficiaries, and the stakeholders.

Project Preparatory Technical Assistance (PPTA)

PPTA may be for a single project, a series of subprojects, or a program or sector loan. This type of TA is utilized for developing a pipeline of projects suitable for financing by ADB or other external sources, or both. In some cases, the preparation of a preliminary sectoral survey or a sectoral review to identify sectoral issues to be addressed by the project or a master plan may be included under the TA.

Projection

An approximation of future events. Usually a projection is made by extrapolating known information into the future period, considering events that could affect the outcome.

Public accountant

Accountant who offers professional services to the public for a fee, as distinguished from an accountant employed in government service or in a private enterprise.

Public sector

The parts of the economy that are not controlled by individuals, voluntary organizations or private companies.

This includes national and local government, and government owned firms.

Public Sector Accounting Standards

Public Sector Accounting standards (PSAS) have been developed, exposed for review, and published by the International Federation of Accountants since 1998, in collaboration with the International Organization of Supreme Audit Institutions (INTOSAI). They are intended for use by all public sector institutions, including national, state local and governments. The United States has its own version of Government accounting Standards. See also International Accounting Standards and Accounting Standards

Public sector enterprise

A revenue-earning entity in the public sector that typically seeks to recover the costs of its investments and operations and which may, or may not, seek to make a profit for distribution to the owner(s), who will probably be a government organization(s).

Purchasing power parity

Purchasing power parity (PPP) is a theory which states that exchange rates between currencies are in equilibrium when their purchasing power is the same in each of the two countries. This means that the exchange rate between two countries should equal the ratio of the two countries' price level of a fixed basket of goods and services.

Q**Qualified audit report**

Audit report opinion in which the auditor expresses reservations, doubts, or exceptions regarding certain items in the report, or draws attention to a limitation in the auditor's examination. An audit report may be qualified because of departures from generally accepted accounting principles, lack of consistency in GAAP application, significant uncertainties affecting the financial statements, or restrictions in the scope of the auditor's examination. There are four types of auditor's opinions: (a) unqualified, (b) qualified, (c) adverse, and (d) disclaimer or denial of opinion.

Qualified opinion

The auditor's opinion accompanying a financial statement that calls attention to limitations in the audit or exceptions the auditor has taken with the audit of the statements.

Quick ratio

(or Acid Test Ratio) a more rigorous test than the Current Ratio of short-run solvency, the current ability of a firm to pay its current debts as they come due. This ratio considers only cash, marketable securities (cash equivalents) and accounts receivable because they are considered to be the most liquid forms of current assets. A Quick Ratio less than 1.0 implies "dependency" on inventory and other current assets to liquidate short-term debt.

R

Rate

Amount of money charged or paid, calculated according to a certain rule or ratio.

Rate of return

The gain or loss for a security in a particular period, consisting of income plus capital gains relative to investment, usually quoted as a percentage. The real rate of return is the annual return realized on that investment, adjusted for changes in the price due to inflation.

Ratio

Expression used to define a relationship between two or more factors; for example a current ratio that is used to report the relationship of operating income to operating expenditures

Real interest rate

Interest rate adjusted for inflation.

Real price

Current price expressed in terms of a base year that is adjusted for inflation and the impact of foreign exchange fluctuations. Prices are expressed in terms of a common unit of measurement of constant value, as in a price index.

Receivable

See Accounts Receivable.

Recurrent expenditure

See Current Expenditure.

Regional Technical Assistance (RETA)

RETAs are Technical Assistance (TA) activities of a regional nature covering more than one member country, and serving to further the common interests of benefiting member countries, or providing a cost-effective means of assisting individual member countries on a joint basis.

Reimbursement

To pay back to someone, e.g. to pay an employee for travel expenses that was paid by the employee out of that employees own personal funds.

Relending

Relending becomes necessary when an ADB loan is extended to a beneficiary that is not the direct borrower of the ADB loan. The terms of relending depend on the nature of the beneficiary.

Representation Letter

See Management Representation Letter

Reserve

Appropriation of retained earnings for a designated purpose, such as plant expansion or a bond sinking fund. The purpose of the reserve is to tell stockholders and creditors that part of retained earnings is unavailable for dividends.

Reserve ratio

Fraction of demand deposit money that a commercial bank must keep in its reserve account. This ratio determines the maximum amount of money a bank may lend. In the United States, the legal reserve requirement is imposed on depository institutions by the Federal Reserve.

Retained earnings

Profits of the business that have not been paid out to the owners as of the balance sheet date. The earnings have been "retained" for use in the business (Retained Earnings is an account in the equity section of the balance sheet). It is comprised of the balance, either debit or credit, of appropriated or unappropriated earnings of an entity that are retained in the business. NOTE: Appropriated earnings are not available for dividends, but may be used to reduce a deficit or may be transferred to stated capital. Other appropriations of profits require a vote of the shareholders.

Retroactive financing

Bank disbursements against eligible expenditures made by borrowers within specified periods prior to signing a loan agreement.

Return on Assets

Shows the after tax earnings of assets. Return on assets is an indicator of how profitable a company is. Use this ratio annually to compare a business' performance to the industry

norms: The higher the ratio the greater the return on assets. However this has to be balanced against such factors as risk, sustainability and reinvestment in the business through development costs.

Return on Equity

Measures the overall efficiency of the firm in managing its total investments in assets and in generating a return to stockholders. It is the primary measure of how well management is running the company. ROE allows you to quickly gauge whether a company is a value creator or a cash consumer. By relating the earnings generated to the shareholders' equity, you can see how much cash is created from the existing assets. Clearly, all things being equal, the higher a company's ROE, the better the company.

Return on Investment (ROI)

A profitability measure that evaluates the performance of a business. ROI can be calculated in various ways. The most common method is Net Income as a percentage of Net Book Value (total assets minus intangible assets and liabilities).

Revaluation

In general, is the reconsideration of the value or worth of a property. In currency, it is the increase in the exchange rate of a currency as a result of official action.

Revenue

The inflows of assets from selling goods and providing services to customers; including the reduction of liabilities from selling goods and providing services to customers.

Revenue-Earning Project

Project that is usually executed, in whole or significant part, by a financially autonomous or semiautonomous entity (such as a corporate business or a public authority) that supplies products or services to customers in return for payment of a price or charge. Projects in the following fields are typically revenue earning: industry, public utilities, railroads, and ports (sea and air). Agricultural projects frequently involve revenue-earning components. These may include specialized government agencies, farmer cooperatives, and ad hoc project management units that supply inputs to farmers (e.g., fertilizer distributors); entities engaged in processing and marketing an agricultural output, such as sugar, tea, or lumber; nucleus estates around which smallholder production is organized; and agro-industries, such as grain storage companies. Projects in rural development, urban development, and health and population may also involve entities that are required to generate revenues by levying user charges to recover costs of housing, public transportation, utilities, and other services.

Revenue-earning project entity

An entity responsible for implementing and operating a revenue-earning project, often referred to as a public sector or a private sector enterprise.

Revenue expenditure

An outlay than only benefits the current business year. It is treated as an expense that is matched against revenues.

Risk

The measurable possibility of losing or not gaining value. Risk is different from uncertainty. Uncertainty is not measurable.

Risk analysis

The analysis of project risks associated with the value of key project variables, and therefore the risk associated with the overall project result. Quantitative risk analysis considers the range of possible values for key variables, and the probability with which they may occur. Simultaneous and random variation within these ranges leads to a combined probability that the project will be unacceptable. When deciding on a particular project or a portfolio of projects, decision makers may take into account not only the expected scale of project net benefits but the risk that they will not be achieved.

Risk contingency

An allowance that may be added to a project cost table after including physical and price contingencies to provide funding for an event or circumstance that is difficult to quantify prior to startup of the project and before the completion of the principal biddings to procure goods and services. It is rarely used, but may be necessary, for example, when potential political or operating conditions may deter contractors and suppliers from participating in a bidding process, with a possible result that high prices may be quoted as a means of covering contractors'/suppliers' unusual risks.

Risk management

The selection of those risks a business should take, and those which should be avoided or mitigated, followed by action to avoid or reduce risk.

Risk premium

In a particular investment, the extra yield the investment must pay over the risk-free rate owing to various types of risk inherent in the investment. In the U.S., for example, any bond issuer other than the government must pay a higher interest rate because the risk of default on U.S. government securities is less than on those of other issuers.

S

Salvage value

a) Realizable value of a fixed asset after deducting costs associated with its sale; b) Scrap value or the value to a junk dealer; or c) The amount remaining after all depreciation has been deducted from the original cost of a depreciable asset.

Second generation imprest account

A sub-account of a project Imprest Account set up by an Executing Agency with ADB agreement for local use.

Sector lending

Sector lending is a form of ADB assistance to a developing member country (DMC) for project-related investments based on considerations relating to a sector or subsector of the DMC as a whole.

Securities market

Primary and secondary market for negotiable equity (stocks) and long-term debt instruments (bonds).

Self-financing ratio

A sometimes referred to as Cash Generation Ratio, Contribution to Expansion ratio.

Sensitivity analysis

The analysis of how sensitive outcomes are to changes in the assumptions. The assumptions that deserve the most attention should depend largely on the dominant benefit and cost elements and the areas of greatest uncertainty of the program or process being analyzed.

Sensitivity indicator

The ratio of the percentage change in NPV to the percentage change in a selected variable. A high value for the indicator indicates project sensitivity to the variable.

Share capital

- (a) Authorized: The type, class, number, and amount of the shares that a company may issue.
- (b) Called up: The amount that the company has required shareholders to pay on the shares issued.
- (c) Issued or subscribed: The type, class, number, and amount of shares held by shareholders.
 - (d) Paid up: The amount that shareholders are deemed to have paid on the shares issued and called up.
- (e) Uncalled: The amount of the share price of issued shares that has not been called up by the company.
- (f) Unissued: The amount of the share capital authorized but not issued.

Share premium

Excess paid to a company by a shareholder, either in cash or in other consideration, over the nominal value of the shares issued

Short-term asset

An asset expected to be converted into cash within the normal operating cycle (usually one year), e.g. accounts receivable and inventory.

Short-term debt

Any debt incurred by an entity and maturing in one year or less from the date that it was originally borrowed.

Short-term liability

A liability that will come due within one year or less.

Sinking fund

Required annual payment to an asset account that is set apart for the amortization of debt, redemption of preferred stock, protection of an investment in depreciable property, or other specified purposes. A sinking fund may be held in cash or marketable securities until needed.

Solvency

Condition of a company able to satisfy its debt obligations as they fall due. Various financial ratios measure a company's degree of solvency, such as the debt-equity ratio and the debt service ratio. Solvency partly depends on corporate EARNING POWER, since a company sustaining losses will sooner or later become insolvent. A solvent business is assumed to be a going concern.

Sovereign risk

Risk that a government will default on a loan or fail to honor other business commitments because of a change in national policy.

Spin-off

Form of corporate divestiture that results in a subsidiary or division becoming an independent company. In a traditional spinoff, shares in the new entity are distributed to the parent corporation's shareholders of record on a pro-rata basis. Spinoffs can also be accomplished through a leveraged buy-out by the subsidiary or division's management, or through an Employee Stock Ownership Plan (ESOP)

Standing orders

Also known as banker's order, an order to a bank to make (usually) a series of payments on the customer's behalf. It is used to pay bills that are due at regular intervals.

Statement of Expenditure (SOE)

Part of a borrower's claim procedure that totals specific expenditures for withdrawing loan proceeds. It is used instead of original documentation. Normally, the Bank requires an SOE to be audited; the conditions are usually set out in the loan documentation.

State-owned enterprises

An enterprise, often a corporation, owned by a government.

Statutory Liquidity Ratio (SLR)

A ratio which every banking company shall maintain in the form of cash, gold or unencumbered approved securities, an amount which shall not, at the close of business on any day be less than such percentage of the total of its demand and time liabilities as the Reserve Bank may specify from time to time.

Statutory powers

Statutory powers or requirements may relate directly to the entity's operations (e.g., power to fix tariffs and levy charges for products or services) or they may define criteria within which an entity may operate (e.g., banking laws which define borrowing/lending limits).

Subprojects

Refers to projects that make up a sector loan.

Straight-line depreciation

Allows an equal amount to be charged as depreciation for each year of the expected use of the asset. It is computed by dividing the adjusted basis of a property by the estimated number of years of remaining useful life.

Subsidiary

A company whose voting stock is more than 50% owned by another company.

Subsidy

Sum paid to companies in certain industries to enable them to sell their goods or services at a price close to the prevailing market price. A subsidy is also used to provide financial support to a commercial or quasi-commercial activity that would otherwise not be viable in narrow profit-and-loss terms, usually in order to sustain broader economic or social benefits.

Supreme Audit Institutions (SAIs)

Supreme audit institutions (SAIs) are the national agencies responsible for auditing government revenue and spending. Their primary purpose is to oversee the management of public funds and the quality and credibility of the government's financial reporting.

Sustainability

Sustainability is the ability of a development activity to deliver substantial benefits for an extended period of time after financial, managerial and technical assistance from a donor finishes.

Swap (transaction)

Spot purchase of foreign exchange (currency swap), fixed or floating rate funds (interest rate swap), or assets (asset swap) with simultaneous forward sale or vice versa.

Switching Value

The SV of a variable is that value at which a project's FNPV becomes zero (or the FIRR equals the discount rate). The SVs are normally given in terms of the percentage change in the value of the variable needed to turn a project's FNPV equal to zero. SVs are useful to determine those variables that are most likely to affect project outcomes. SVs of the more important (or potent) variables should be presented in order of declining sensitivity.

T

Takeover

Form of acquisition by one company of another; usually followed by a MERGER. Takeover can be hostile or friendly. The public tender offer is a means of acquiring a target firm against the wishes of its management. In a friendly takeover, the acquiring firm negotiates with the targeted company and the subsequent agreement, reached in an amiable atmosphere, is put up for approval by shareholders.

Tangible asset

Normally refers to assets that can be held or seen and that are capable of being appraised at an actual or approximate value (e.g. inventory, land & buildings, etc.).

Tariff

- (a) Tax on imports or exports, most often calculated as a percent of the price charged for the good by the foreign supplier. The money collected is duty. A tariff may be imposed as a source of revenue for the government. It may also be imposed to protect domestic firms from import competition.
- (b) Schedule of rates or fares in the transportation industry and public utilities.

Tax

Compulsary levy imposed by the state/country to individual property or transaction use to defray necessary expenses of the government.

Tranche

Payment (disbursement) by a lender of a portion of an agreed loan commitment.

Transparency

Refers to availability of information to the general public and clarity about government rules, regulations, and decisions and how these affect both public and private sector functioning.

Turnover

Frequency with which an item (i.e., fixed asset, inventory, accounts receivable, personnel) is replaced during an accounting period.

U

Underwriting

Acceptance of risk in return for payment. In a new securities issue, the underwriter--known as the investment banker--may perform an underwriting function by purchasing the securities at a fixed price from the issuer, hoping to sell them at a higher offering price and make a profit on the spread. Investment bankers usually form an underwriting group, also called a syndicate, to pool the risk and assure successful distribution of the issue.

Unqualified Audit Opinion

The auditor's opinion accompanying a financial statement that the auditor concludes that the financial statements are presented fairly in all materials respects in accordance with the identified financial reporting framework.

V

Valuation

Approach by which the realistic value of an asset is determined for proper financial reporting. For example, accounts receivable from a credit sale transaction may be legitimate, but if the customer is bankrupt and unable to pay, the valuation is lower.

Value-at-Risk (VaR)

In economics and finance, the Value at risk, or VaR, is a measure used to estimate how the value of an asset or of a portfolio of assets could decrease over a certain time period (usually over 1 day or 10 days) under usual conditions.

Value added

The difference, at each stage of production or the provisioning of a service, between the price of a product or service and all materials or activities paid for to produce the product or provide the service.

Variable costs

Expenses that vary in total in direct proportion to changes in activities, such as machine hours or labor hours within the relevant range. Examples are direct materials used to manufacture an item and gasoline expense based on mileage driven. Variable cost per unit is constant.

Venture capital

Financing source for new businesses or turn-around ventures that usually combine high risk with high return potential. There are various stages of venture capital, such as beginning with seed money and then proceeding to the development stage. Sources of venture capital include wealthy individuals, small business investment companies, and limited partnerships.

Viability

In economics, is the capability of developing and surviving as a relatively independent social, economic or political unit.

Value Added Tax (VAT)

A consumption tax where taxes are levied at each step of a manufacturing process where value is added to that product at that point in the manufacturing cycle; as well as at the point where the consumer purchases the end product.

W

Warrant

In government accounting, is an order drawn authorizing payment to a designated payee. In securities, it is a security entitling the holder to buy a proportionate amount of stock at some specified future date at a specified price, usually one higher than current market. This "warrant" is then traded as a security, the price of which reflects the value of the underlying stock. Warrants are issued by corporations and often used as a "sweetener" bundled with another class of security to enhance the marketability of the latter. Warrants are like call options, but with much longer time spans -- sometimes years. In addition, warrants are offered by corporations whereas exchange traded call options are not issued by firms.

Weighted Average Cost of Capital (WACC)

An average representing the expected return on all of a company's securities. Each source of capital, such as stocks, bonds, and other debt, is weighted in the calculation according to its prominence in the company's capital structure.

Working capital

Current assets minus current liabilities; also called net current assets or current capital. It measures the margin of protection for current creditors. It reflects the ability to finance current operations.

Working capital ratio

Working capital expressed as a percentage of sales.

Working ratio

Ratio of gross operating revenues from all operational sources to total operating expenditures, excluding depreciation and non-cash charges.

Write-off

To decrease the value of an item, e.g., a tax write-off decreases tax liability, a vehicle involved in an accident can be declared a write-off if the cost to repair is in excess of the value of the vehicle.

Y

Yield

(a) On a security, the real rate of return to the investor or the effective cost to the issuer for a specified period. It differs from the coupon rate, since it takes into account the market price of the security.

(b) Return from an asset or service provided.

Yield curve

Graph showing the term structure of interest rates by plotting the yields of all bonds of the same quality with maturities ranging from the shortest to the longest available. The resulting curve shows whether short-term rates are higher or lower than long-term rates.

Yield to maturity

Effective rate of return an investor will receive if a long-term, interest-bearing investment, such as a bond, is held to its maturity date. It takes into account the bond's face value, market price, nominal interest rate or coupon rate, time to maturity, and the time between interest payments. Recognizing time value of money, it is the discount rate at which the present value of all future payments would equal the present price of the bond. Also known as the internal rate of return. It assumes that coupons are reinvested at the yield to maturity rate.

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Note: Most of the entries have been lifted from the Glossary of the "Guidelines for the Financial Governance and Management of Investment Projects Financed by the Asian Development Bank" web version, 2001.