Accrual Basis
A method of accounting that recognizes revenues and expenses as they accrue, even though cash would not have been received or paid during the accrual period.

Amortization
The reduction of an amount at regular intervals over a certain time period. This term is used to refer to the reduction of debt by regular payment of loan installments during the life of a loan. It is also used to describe the accounting process of writing off an intangible asset.

Annual Report
A yearly publication that contains particulars relating to the operating data of a company, and which is published and distributed by the company to its share-holders, as per the requirement of the Companies Act. The important contents are the profit and loss statement and the balance sheet. These statements show a company's performance in terms of sales and earnings during a financial year, and also its year-end financial position in terms of assets and liabilities. It also contains the directors' report, a notice to the shareholders about the proposed business agenda of the annual general meeting and the auditor's report.

Balance Sheet
A statement of the financial position of an enterprise, as on a certain date, and in a certain format showing the type and amounts of the various assets owned, liabilities owed, and shareholder's funds.

Bank Guarantee
The financial guarantees and performance guarantees issued by banks on behalf of their clients. A financial guarantee assures repayment of money, in the event of non-completion of the contract by the client. A performance guarantee provides an assurance of compensation in the event of inadequate or delayed performance on a contract. A deferred payment guarantee promises payment of instalments due to a supplier of machinery or equipment.

Bond
A long-term debt instrument on which the issuer pays interest periodically, known as 'Coupon'. Bonds are secured by collateral in the form of immovable property. While generally, bonds have a definite maturity, 'Perpetual Bonds' are securities without any maturity.

Book Value
It is the amount of net assets that would be available per equity share, after a company pays off all liabilities including preference shares from the sale proceeds of all its assets liquidated at balance sheet values.

Bonus Issue
New shares are issued to existing shareholders in proportion to their holdings. For example, the company may give one bonus share for every five shares held.

Break-even Point
The point where the revenues from a business operation equal the total costs (fixed costs = variable costs). Thus, a profit accrues when revenues exceed the break-even point. The break-even volume is computed by dividing the fixed costs (FC) by the difference between the selling price per unit (SP) and variable cost per unit (VC).

Budget
A financial plan that projects receipts and payments of an entity covering a specific period of time, usually one year. Its primary purpose is to achieve financial control. Budgets could be distinguished on the basis of time span, function and flexibility. For instance, budgets may be short-term or long-term; similarly, there are Sales Budgets, Cash Budgets, Capital Expenditure Budgets and other to cover different functions.

Business Risk
The risk of business failure, which stems from factors such as the cost structure of a venture (i.e., fixed cost versus variable cost), intra-industry competition, and government policies. It is reflected in the variability of profits before interest and taxes.

Consortium
A term generally used in banking: it refers to a group of banks associating for the purpose of meeting the financial requirements of a borrower, such as working capital or a term loan. In business, the term applies to a group of companies, national or international, working together as a joint venture, sharing resources and having interlocking financial agreements.

Contingent Liabilities
The liabilities that may arise as a result of some future event which, though possible, is deemed unlikely; for example, a court judgement on a pending lawsuit may impose a financial payment on a company.

Corporate Governance
The manner in which a company is managed. The term, Corporate Governance connotes the importance of responsibility and accountability of a company's management to its shareholders and other stakeholders, viz., employees, suppliers, customers and the local community. Hence it calls for ethics, morals and good practices in running a company. Good corporate governance would be reflected in generally good performance, clean business practices, improved disclosure and sound policies relating to capital expenditure, financing and dividend payment, which will enhance shareholders' wealth.

Cost of Capital
The weighted average cost for long-term funds raised by a company from different sources such as term loans, debentures/bonds, preference shares, equity shares and retained earnings.

Current Assets
The assets which are expected to be converted into cash or consumed during the 'Operating Cycle' of a business. The operating cycle is the time taken for the sequence of events from the purchase of raw materials to the collection of cash from customers for goods sold. Hence, it is also known as the 'Cash Conversion Cycle'. Examples of current assets are cash, short-term investments particularly money market securities, raw materials, work-in-process, finished goods, and accounts receivable.

Current Liabilities
The claims against a company that will become due within a year. These are mainly liabilities on account of purchase of materials or services rendered to the firm. Examples include accounts and promissory notes payable, as well as taxes and loan repayments falling due within the year.

Current Ratio
This ratio is a measure of a company's ability to pay its short-term debts as they become due. It is computed from a balance sheet by dividing current assets by current liabilities. In India, the general norms for this liquidity ratio is 1.33.

Coupon Rate
It is the rate of annual interest on the par value of debentures or bonds that an issuer promises to pay. In India, till a few years ago, coupon rates were subject to a ceiling stipulated by the Controller of Capital Issues. With the removal of the ceiling, issuers have fixed their coupon rates by taking into consideration, market perceptions and expectations. The rate may be fixed or it may be floating in relation to some benchmark.

Debenture
A debt security issued by companies, having a certain maturity and bearing a stated coupon rate. Debentures may be unsecured or secured by assets such as land and building of the issuing company. Debenture holders have a prior claim on the earnings (coupon) and assets in the event of liquidation, as compared to preference and equity shareholders.

Debt-Equity Ratio
A measure of a company's financial leverage calculated by dividing its total liabilities by stockholders' equity. It indicates what proportion of equity and debt the company is using to finance its assets.

Depreciation
An accounting process by which the cost of a fixed asset, such as a building or machinery, is allocated as a periodic expense, spread over the depreciable life of the asset. The term also means the amount of expense determined by such a process. Sometimes, it is called amortization when the asset is intangible or 'depletion' when the asset is a natural resource, such as minerals. There are different methods of depreciation such as the Straight Line Method and the Written Down Value (WDV) method.

Direct Taxes
Taxes whose impact and incidence are on the same person. The taxes levied on income, and wealth tax are instances of direct taxes.

Discount Rate
The interest rate used in calculating the present value of future cash flows.

Diversification
The process of spreading out investments so as to limit exposure and reduce risk. Individuals do this by investing in shares of different companies or by combining stocks with debentures, mutual fund shares, fixed deposits and other investment vehicles. Companies achieve diversification by venturing into new and unrelated business areas.

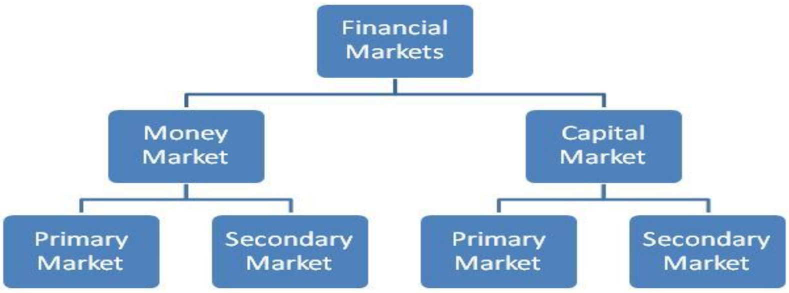
Dividend
The payment made by a company to its shareholders. Legal and financial considerations have a bearing on the level of dividend to be paid. For instance, dividends may be paid out of profits alone; so also, a growing company needs funds to finance its expansion and hence may pay only a modest dividend, in order to conserve resources.

Earnings Per Share (EPS)
The net profits of a company expressed on a per (equity) share basis. It is arrived at by dividing the figure of profits after taxes and dividends paid on preference shares, if any, by the number of equity shares outstanding.

Equity Share
A security that represents ownership interest in a company. It is issued to those who have contributed capital in setting up an enterprise. Apart from a public issue, equity shares may originate through an issue of bonus shares, convertible securities, warrants, GDRs, etc. An alternative term that is sometimes used is 'common stock' or simply, 'stock'.

Foreign Currency Convertible Bond (FCCB)
An unsecured debt instrument denominated in a foreign-currency and issued by an Indian company which is convertible into shares, or in some cases into GDRs, at a predetermined rate. That is, the conversion price and the exchange rate are fixed.

Financial Markets
The transactions which result in the creation or transfer of financial assets and liabilities, mostly in the form of tradeable securities. The term connotes a vast forum rather than a specific physical location for trading activity. The constituents of financial markets are shown below



The Capital Market is that segment of the financial markets in which securities having maturities exceeding one year are traded. Examples include debentures, preference shares and equity shares.

The Money Market is that segment of the financial markets wherein financial instruments having maturities of less than one year are traded. Examples include call money, repos, commercial paper and intercorporate deposit.

Goodwill
The value of intangible facets of a business such as its name, reputation and location, which is reflected in the excess of its acquisition price over the fair value of its tangible assets.

Gross Domestic Product (GDP)
This is a comprehensive measure of the economic activity that takes place in a country during a certain period. It is the total value of final goods and services produced in an economy in a year.

Inflation
The phenomenon of rising prices of goods and services in general. It can come about due to a scarcity of supplies in relation to demand; this is known as 'demand-pull inflation'. It may also result from an increase in the cost of some critical input, such as steel or petroleum, which then triggers off a gradual rise in prices in general; this is known as 'cost-push inflation'.

Insider
A term used for one who has access to information concerning a company, that is not publicly available and is of such a nature that it enables him or her to make substantial profits in share transactions.

Letter of Credit
A financial instrument issued by a bank on behalf of a purchaser of goods, undertaking responsibility to pay a certain amount during a specified period, for goods delivered.

LIBOR
An abbreviation for London Inter Bank Offer Rate, which is an average of the interest rates at which leading international banks are prepared to offer term eurodollar deposits to each other. The interest rate differs according to the deposit maturity and the soundness of borrowing banks. Libor is also used as a reference rate in quoting interest rates on various other loans.

Listing
The grant of approval for dealings in a certain security (e.g., share or debenture) at a stock exchange. Consequently, companies must pay their respective exchanges, an annual listing fee which is linked to the paid-up capital.

Market Capitalization
The value of equity shares outstanding at prevailing market prices.

Market capitalization = Number of shares x Market price of each share.

Market capitalization may be determined for a company or for the stock market as a whole.

Mark-to-market
Mark-to-market or fair value accounting refers to accounting for the fair value of an asset or liability based on the current market price of the asset or liability, or for similar assets and liabilities, or based on another objectively assessed fair value.

National Stock Exchange (NSE)
It is a nationwide screen-based trading network using computers, satellite link and electronic media that facilitate transactions in securities by investors across India. The idea of this model exchange was an answer to the deficiencies of the older stock exchanges as reflected in settlement delays, price rigging and a lack of transparency.

Net Present Value (NPV)
A discounted cash flow measure to evaluated the viability of an investment proposal. It serves to determine whether the present value of estimated future cash flows exceeds the investment on a project. The net present value is the difference of the sum of discounted cash flows and the outlay, i.e.

$$NPV = \sum_{t=1}^{N} \frac{CF_1}{(1+k)^1} = 1$$

Where CFt represents cash flow in year t, k is the discount rate and 1 is the outlay.

Net Worth
The funds belonging to the shareholders of a company. Ordinarily, the term 'Net Worth' is synonymous with the funds belonging to the equity shareholders. However, a wider meaning of the term is as follows:

Net Worth = Shareholders' equity + Preference share capital. Shareholder's equity is the sum of paid-up equity capital and reserves.

Price-earnings Ratio
The market price of a share divided by earnings per share. This number, also known as the 'Multiple', or 'Multiplier', is often used by investors and analysts to determine the upward potential of a share by comparing its multiplier to that of the particular industry as a whole. The multiple can be the expected earnings per share. One simple rule of thumb suggests that the P/E ratio can be as high as the anticipated growth rate of a company.

Primary Market
The segment of financial markets in which securities are originated. Thus, the transactions for fresh offerings of equity shares, debentures, preference shares, and other securities are collectively referred to as the primary market.

Prime Lending Rate (PLR)
The rate of interest charged by banks on working capital and short term loans to their most credit-worthy borrowers. The prime rate serves as a benchmark for deciding on the interest rate to be charged to other borrowers.

Private Placement
The sale, by a company, of its securities to one or a few financial institutions through a process of direct negotiations, or to a limited number of individual investors.

Ratio Analysis
The use of financial ratios for assessing the financial performance and financial position of a company by means of various ratios that relate to the liquidity, turnover, profitability, etc., of a company.

Secondary Market
The segment of financial market in which securities that have already been issued are traded. Thus the secondary market comprises security exchanges and also transactions taking place elsewhere,

SEBI
An abbreviation for Securities and Exchange Board of India, which is a regulatory body established under the Securities and Exchange Board of India Act, 1992. Its role is to protect the interests of investors in securities, to promote the development of securities markets and to regulate the same.

Service Tax
Service tax is a part of Central Excise in India. It is a tax levied on services provided in India, except the State of Jammu and Kashmir. The responsibility of collecting the tax lies with the Central Board of Excise and Customs(CBEC).

Stock Index
A stock index is a method of measuring a section of the stock market. Many indices are cited by news or financial services firms and are used as benchmarks, to measure the performance of portfolios such as mutual funds. Alternatively, an index may also be considered as an instrument (after all it can be traded) which derives its value from other instruments or indices. The index may be weighted to reflect the market capitalization of its components, or may be a simple index which merely represents the net change in the prices of the underlying instruments.

Stock Split
Adjustments effected in the face value of shares and the number of shares outstanding, such that no change occurs in the total paid-up capital. Stock splits are generally associated with shares having a high face value and which correspondingly trade at a higher price. By reducing the face value and increasing the number of shares, a company hopes to bring down the market price to ensure continued investor interest.

Sunk Costs
The costs that have already been incurred because of decisions in the past. Consequently, decisions taken today cannot vary nor reverse what has already happened.

Systematic Risk
The portion of risk or variability that is caused by factors, which affect the returns on all securities. Major political, economic and social phenomena, for instance, would affect all stocks, which implies that systematic risk cannot be eliminated by diversification. Therefore, it is also termed undiversifiable risk.

Unsystematic Risk
A risk that is unique to a firm or industry. The returns on an asset can be affected by occurrences such as a labour strike, changes in consumer preferences, or even wrong management decisions. The adverse impact of any such occurrence would be confined to one or a few firms. Therefore, these unsystematic variations occur independently of broad price movements in the market. By having a diversified portfolio, it is possible to neutralize unsystematic risk, which is also therefore termed, 'Diversifiable Risk'.

Variable Cost
The expenses that vary proportionately with the level of production activities or volume of output of any business. Examples include materials, electricity, and lubricants. Hence, ordinarily, the marginal cost of a unit of output is the increase in total variable cost entailed by the additional unit, i.e., direct material, direct labour, direct expenses and certain overheads.

Venture Capital
The long-term financial assistance to projects being set up to introduce new products/ inventions/innovations or to employ or commercialize new technologies. Thus, venture capital entails high risk but has the promise of attractive returns. It is, therefore, also known as 'Risk Capital'.