Financial Terms A-Z

A

AGM - Annual General Meeting, it is the year meeting held by every registered company. Agenda is to explain the performance during the year, presentation of annual financial statements, voting on important financial decisions. Any shareholder can participate in AGM.

Asset turnover ratio - This ratio can be explained as Net assets / Total turnover or sales. This ratio measures the operational efficiency of business assets. In simple terms this measures how many time total assets turned in a year and how efficiently the assets are used in a business.

Acid test ratio - This is one of the important ratio to measure business liquidity. Business liquidity is defined as ability of a business to pay it;s short term debts. Acid test ratio = Highly liquid assets / current liabilities

American Depository Receipts - This is the way non-US companies raises money from US investors. These shares can be traded in US stock exchanges and denominated in US $.

Amortization - It is an accounting technique by which intangible assets are written off over a period of time. For example provision for doubtful debts or preliminary expenses are written off over a certain period of time.

Annuity - It is an investment scheme under which investor makes recurring investments and lump sum payment is made to him at the end. Common example is Recurring deposit account at a post office where people makes small monthly deposits and gets their money back at the end of period. Benefit of Annuity is investor gets compound interest over a period of time.

Asset Management Company - AMC is a company that pools and invests investor money in pre-determined goals. Pool of funds is known as Mutual fund.

Audit - Financial statement and physical stock is checked annually by professional auditor (Chartered Accountant affiliated by ICAI in India)

B

Book-keeping - Recording of financial transactions in books of account.

Bear market - A market situation in which most of the investors thinks that markets will fall.

Balance of Payment - BOP is the difference between a country's exports and imports.

C

Capital - Wealth invested by an entrepreneur on his business. Capital = Assets - Liabilities

Capital gain - Gain by selling a capital asset in which a person is not doing business. Income by selling a house by a bank employee is a capital gain whereas when a builder do the same thing it is Income from business and professional.

Current asset - An asset that can be converted into cash with 12 months. For example - debtors, stock etc.

Credit rating - A ranking applied to an individual, business or a nation based upon its credit history and current financial position. There are various credit rating companies in India such as Crisil.

CPI - Consumer price index is measure to find price of a bundle of commodities. CPI is used to measure the inflation in a country.

D

Debt consolidation - Debt consolidation is a process by which various loans and converted into a single loan to reduce interest rate and instalment value.

Depreciation - Depreciation is reduction in value of an asset due wear and tear over a period of time. For example a company purchased a machine in 2005 and planned to charge 20% depreciation. In 2010 the machine will be written off from the books of account.

Dividend - Dividend is the amount per share paid by a company to its shareholders. Dividend value is based upon company's profitability.

Dividend payout ratio - It is the ratio of dividend paid per share and EPS (Earning per share)
Double entry bookkeeping - It is a method of bookkeeping in which every transaction is recorded two accounts. Once in debit side and once in credit side.

E

Earning per share - Earnings made by a company in a financial year divided by number of issued shares.

Equity - Value of a business. Equity = Total assets - Total liabilities

Ex-divided - Ex-dividend means without dividend. When a seller makes a ex-dividend sales contract then he is entitled to get dividend or interest payment.

EBIT - Earning before interest and taxes

EBT - Earning before tax

EAT - Earning after tax

F

Face value - The amount mentioned on face of a bond certificate.

Fixed assets - Assets which can be seen such as machinery

Financial year - A period of 12 months from 1st April to 31st march

Fundamental analysis - Analysis of a company based upon financial and operational performance.

Fiscal policy - Income and expenses management by Government.

Flat rate - Rate of interest in a contract which remains same irrespective of market rate in future.

Floating rate - Rate of interest which changes with change in market rate.

Fund manager - A person who manages a mutual fund and tries to maximize fund's returns while sticking to fund's objectives.

G

Gearing - It is the ratio of debt to equity

Goodwill - Intangible assets that defines firm's reputation in monetary terms.

Gross profit = Net sales - Net purchases - Direct expenses

GDP - Gross domestic product is the aggregate value of goods and services produced by every person of a nation.

GST - Goods and services tax is the same tax system for everything. It is proposed that GST will replace the multi tax system in India by 2015.

H

Hedging - Hedging is a technique used by investors to protect themselves from adverse price movements. Derivatives are used for hedging in which hedgers takes the risk of price fluctuations.

Hedge funds - Mutual funds which invests in derivatives

I

Index - It is statistical measure used to find price variations in market. In stock markets most dominating stocks are grouped to make an index. For example - Sensex.

Income statement
A statement that represents both income and expenditure of a business during a specific period of time.

IPO - Initial public offer is issue of stocks for the first time in the market.

Intangible assets – Assets which can't be seen but have value for business. For example – Goodwill.

Indemnity – A legal contract under which one party promises to pay another for any loses incurred to them by their acts.

Interest rate risk – Risk that value of financial assets will deteriorate because of fall in interest rate. For example value of bonds decreases with decrease in interest rate.

Irredeemable stocks – Stocks which can't be exchanged for cash in future.

Indirect Costs - Indirect cost is a cost incurred on product that is not directly related to its production.

J

Junk fund – A fund which invests investor’s money in junk investments means high risk investments which high returns.

K

KYC – Know Your Customer policy is mandatory in India and every investor irrespective of his investment volume needs to furnish his identity and residence details.

L

Libor – London

Liquidity – Ability of a business to pay off its short term debts with current assets. Currently NISL is facing liquidity crunch.

Liquid assets – Assets which can be readily converted into cash

Liquid ratio – Liquid assets/Current liabilities

Limited liability – Liability of an individual or a business up to the value of investment made in a business

M

Monopoly - A situation in market where there are many buyers but a single seller exist.

Money market - Market dealing in short term lending and borrowing of funds. Also know as Cash market.

Monetary policy - Set of actions by Central bank of a country (RBI in case of India) to control the supply of money. These actions included increase in interest rate, open market purchases, changing commercial bank's reserve funds ratio (SLR) etc.

Marginal cost - Additional cost to produce an extra unit of product.

Margin - Amount of profit added to cost price of each unit of a product

Margin call - Margin call term is used in two situations. **First** - Whenever a lender gives a secured loan and loan value is a fixed percentage of loan then whenever the value of security decrease below the decided ratio then lender given a margin call to borrower to bring loan to security ratio to decided level. **Secondly** in stock exchanges traders trades in various securities by paying 20-30% of the value of securities. Whenever the value of security goes below that margin, broker gives margin call to trader to bring the margin to desired level.

Mark-to-market - As explained above while defining margin call, value of assets in case of securities is measured on daily basis. If the trader's asset value increased, increased value is transferred to his account. In case the value of assets decreased margin call is made to adjust the margin.

N

NPV - Net Present Value is aggregate of future cash flows from a project minus total costs. NPV is a capital budgeting technique used to check feasibility of projects.

Net profit - Net profit is Gross profit minus indirect cost. See indirect costs

Net worth - Net assets - Total liabilities

Nationalization - When Government takes control of a business, this is known as nationalization.

NAV - Net Assets Value is mutual fund's per unit exchange traded price

O

Opportunity cost - Additional cost in production of an addition unit of product.

Options - Option is right to buy at pre-determined price at a future date. Option is used for hedging. Options safeguards option-holder from future price fluctuations.

Overdraft - Facility given by a bank which allows its customers to withdraw more money than account balance. Overdraft generally have high rate of interest as borrower can demand and return the loan anytime.

P

Preference shares - A type of shares having no voting rights and have higher rate of dividend.

Ponzi **schemes -** It is a kind of fraud scheme which use Network marketing as a tool. Investors are paid out of new investments. These schemes end when new investments stop coming and large number of investors wants to withdraw their money. Latest Ponzi scheme in India was "Speak Asia".

PLR - Prime lending rate is the minimum rate of interest that is to be charged by a bank. Each bank decides its own PLR.

R

ROI - Rate on investment is return divided by value of investment

Redemption - Maturity date of a security or a bond

Recession - An economic situation of negative growth

Repo rate - Rate at which Central bank (RBI in case of India) lends money to commercial banks

Reverse repo rate - Rate at which commercial banks lends to central bank

Right issue - Issue of shares in which existing shareholders gets right to buy shares in proportion of their existing holding

Risk free return - Rate of return, normally it is 90 days bills issued by a national government

S

Stagnation - An economic situation of slow economic growth, high rate unemployment and inflation.

Shorting - Selling securities which an investors don't have in expectation of price drop

U

Underwriters - In case of an IPO, new companies makes contracts with underwriter where underwriters promises to purchase unsubscribe shares.

W

Working capital - Money required by a business to run its day to day business. Working capital = Current assets / Current liabilities

Warrants - A document which gives right to holder to get shares at stated price

Y

Yield - Yield is the return on investment which may in form dividend or interest