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Key Concepts in Accounting and Finance

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Contents

Introduction	vii
The Key Concepts	1
Index	249

Introduction

You could be mistaken for believing that accounting and finance represent the only true sciences of business; in fact, in the right hands, the disciplines are more like arts. Solid, staid, restrictive, impersonal number-crunchers, grey-suited and humourless – all descriptions levelled at practitioners, yet in truth the disciplines are as forward looking and vibrant as any other field of business operations.

Accounting provides the primary means of examining, recording, analysing and assessing performance and quantifying the financial data of a business. Finance is a broader church, which addresses issues such as investment, the securities markets and currency exchange, which require practitioners to be conversant in financial data and the truths that are hidden within these figures.

Both accounting and finance present additional complications, particularly for those involved in the practice or the study of international techniques, definitions, processes and interpretations. Gradually, international conventions on the formatting, presentation and interpretation of accounting and finance data are being established, but there is still a gulf in style, notably between the two sides of the Atlantic Ocean. Once we look beyond the different terminologies, the techniques become remarkably familiar, and meaningful comparisons may be made.

The plethora of accounting and finance ratios and calculations may at first appear daunting, but once the purpose of these mathematical computations has been established, the simplicity of many belie the more complete science of interpreting what the resulting figures actually mean. It is increasingly difficult for business studies generalists or, for that matter, specialists in the field of marketing or human resources to ignore the implications of either accounting or finance. In addressing these two disciplines even those with a fundamental fear of figures can begin to see the broader and more complete picture.

The structure of the glossary

Every attempt has been made to include all of the key concepts in this discipline, taking into account currently used terminology, ratios and jargon common throughout accounting and finance in organizations around the world. There are notable differences in legislation and procedure when we compare the basic performance measurements and formatting of financial data in the United Kingdom, Europe, the United

States and Japan. Increasingly there are attempts to harmonize the way in which financial statements appear, the way in which they are interpreted, and a process is in train which is gradually seeking to standardize regulations and procedures.

The key concepts have been arranged alphabetically in order to ensure that the reader can quickly find the term or entry of immediate interest. It is normally the case that a brief description of the term is presented, followed by a more expansive explanation.

The majority of the key concepts have the following in common:

- They may have a reference within the text to another key concept identified by a word or phrase that is in **bold** type – this should enable readers to investigate a directly implicated key concept should they require clarification of the definition at that point.
- They may have a series of related key concepts which are featured at the end of the definition – this may allow the reader to continue to research and investigate subsidiary or allied key concepts.
- They may feature book or journal references – a vital feature for the reader to undertake follow-up research for more expansive explanations, often written by the originator or by a leading writer in that particular field of study.
- They may include website references – it is notoriously difficult to ensure that websites are still running at the time of going to print, let alone several months beyond that time, but in the majority of cases long-established websites have been selected, or governmental websites that are unlikely to be closed or have a major address change.

Glossary terms – a guide

Whilst the majority of the key concepts have an international flavour, readers are cautioned to ensure that they access the legislation, in particular, which refers to their native country.

It is also often the case that there are terms which have no currency in a particular country as they may be allied to specific legislation of another country. Readers are cautioned to check whether the description does include a specific reference to such law, and not to assume in every case that the key concept is a generic one and that it can be applied universally to accounting or finance.

In all cases, references to other books, journals and websites are based on the latest available information. It was not always possible to ensure that the key text or printed reference is in print, but the majority

of well-stocked college or university libraries should have access to the original materials. In the majority of cases, when generic accounting, finance or investment books have been referenced, these are, in the view of the writers, the best and most available additional reading texts.