Commonly Used Terms in Public Finance & Government Accounting

The Institute of Chartered Accountants of India
(Set up by an Act of Parliament)
New Delhi

First Edition : 2012
Second Edition : 2015

Committee/Department : Committee on Public Finance & Government Accounting

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Price : ₹ 100/-

ISBN No. : 978-81-8441-576-6

Published by : The Publication Department on behalf of the Institute of Chartered Accountants of India, ICAI Bhawan, Post Box No. 7100, Indraprastha Marg, New Delhi - 110 002.

Printed by : Sahitya Bhawan Publications, Hospital Road, Agra-282 003.
June/2015/P1763 (Revised)

FOREWORD

Over the years, the CA profession has undergone a paradigm shift. The ICAI's persistent pursuit for perfection, skills and knowledge has placed the Chartered Accountants in an exalted position in the present professional order of the country. Chartered accountancy profession has already shown its mettle in commerce, industry, education and in other corporate fields. ICAI, through its Committee on Public Finance & Government Accounting, strives to promote and contribute to the value of chartered accountants by spreading awareness of the important roles our members can play, by bringing out various handbooks, and enriching their knowledge to make them aware and updated in the field of Public Finance & Government Accounting.

With the advent of new reforms and ever changing business environment, the Committee has taken this initiative to refine its handbook on 'Commonly Used Terms in Public Finance & Government Accounting' which aims to revisit the aspects of Public Finance & Government Accounting which will be useful for the general readers who come across new terms in the financial pages of newspapers and in business magazines.

I compliment CA Vijay Garg, Chairman, CA. Sanjay Agarwal, Vice-chairman, other members and Secretariat of the Committee for visualizing the need in these ever-changing conditions and coming up with handbook to bring out clarity in the usage of the terms.

I am confident that the readers would find this handbook immensely useful in expanding their knowledge and understanding the terms.

New Delhi **CA Manoj Fadnis**
April 24, 2015 **President**

PREFACE

Financial decisions are among the most important that are made by people during their lifetime, and it is our collective responsibility to provide better tools to assist people in making those decisions. In today's society, the availability of increasingly complex financial products and the growing need to be financially self-sufficient means that people must be increasingly financially literate.

The handbook on "Commonly Used Terms in Public Finance & Government Accounting" helps in understanding Financial Terms. Launched originally in 2012, it is now updated with modern terminology to meet with the increasing demand for the book. The handbook is an important resource that will help to create a much greater understanding of unfamiliar and unknown jargon which is used on a daily basis in relation to all aspects of the money business. This handbook will also give guidance to management and staff who work in the financial services sector, money advisers, the Government, regulators and utility companies in explaining phrases used by them.

It is hoped that this handbook would be found useful by its esteemed readers interested in understanding the terminology of Public Finance & Government Accounting.

I gratefully acknowledge the efforts of all the persons involved in the preparation of this handbook.

New Delhi
February, 2015

CA Vijay Garg
Chairman, CPF&GA

Acknowledgement

The public financial management and Government financial records of any country must have prudent accounting systems backed by sound and effective practices and internal checks and controls in order to ensure proper control over public funds. The public finance performance of a government is seen as facing important challenges to its capacity to champion economic development given the increasing global perception of mostly regulatory and stabilizing role of government.

In the light of this background, the Committee on Public Finance and Government Accounting has taken this initiative to revive its handbook on "Commonly Used Terms in Public Finance & Government Accounting" with a view to highlighting and providing an outlook for better understanding of terms in Government Accounts and Public Finance.

The Committee on Public Finance & Government Accounting, ICAI is happy to express its gratitude to everyone who supported it in bringing out this handbook. I am thankful for their inspiring guidance, and constructive sharing of their true and illuminating views on a number of issues related to the compilation.

I would also like to thank Dr. Nikhil Saket, Secretary, Committee on Public Finance and Government Accounting and other officials of the committee who assisted in bringing out the compilation.

New Delhi	**CA Vijay Garg**
February, 2015	**Chairman, CPF&GA**

A

Abatement

A reduction or decrease in taxable value that results in a reduction of taxes after an assessment and levy.

Accounting System

Organized set of manual and computerized accounting methods, procedures, and controls established to gather, record, classify, analyze, summarize, interpret and present accurate and timely financial data for management decisions.

Assets

A resource with economic value that an individual, corporation or country owns or controls with the expectation that it will provide future benefits.

Absolute Advantage

This is the simplest yardstick of economic performance. If one person, firm or country can produce more of something with the same amount of effort and resources, they have an absolute advantage over other producers. It is the ability of a person, firm or country to produce a good or service at a lower cost with the same amount of effort and resources than any other producer.

Ad valorem Tax

The phrase ad valorem is Latin for "according to value". Accordingly, it is the tax, duty or fee which is levied on the basis of change in value of the product

Ad-Valorem Duties

Are the duties determined as a certain percentage of the price of the product.

Amortization

The reduction in the value of an asset by prorating its cost over a period of asset's useful life.

Accounting Policies

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

Accrual Basis of Accounting

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

Aggregate Demand Theory

Aggregate demand theory explains the relationship between economic output, demand and consumption. As per the theory, economic output will decrease if there is a fall in the value of total demand and consumption.

Aggregate Expenditure

Aggregate expenditure is defined as the current value of all the finished goods and services in the economy. Aggregate expenditure is one of the methods to calculate the sum total of all economic activity in an economy which is referred to as the Gross Domestic Product of an economy.

Aggregate Output

The sum total of an economy's production of goods and services in a given period, usually a year. The aggregate output in an economy is also called gross domestic product (GDP).

Aggregate Supply

The total amount of real goods and services supplied to a market in a particular given period at a given price level. Aggregate supply value equals the real gross domestic product, or real GDP.

Appraise

To make an estimate of value, particularly of the value of property

Appreciation

A rise in the value of an asset and the opposite of depreciation. When the value of a currency rises relative to another, it appreciates or becomes stronger.

Allocation Function

Comprehends the actions of governments that change the deployment of resources from the allocation the market would otherwise produce.

Appraisal Ratio

The ratio of the appraised value to an indicator of market value. In the context of Mutual Funds, it measures the abnormal returns per unit of a risk that could at least be diversified away by holding a market index portfolio.

Appropriation Bill

A Bill that enables withdrawal of money from the Consolidated Fund to pay off expenses. These are instruments that Parliament clears after the demand for grants has been voted by the Lok Sabha.

Arbitrage

Arbitrage by definition is a financial transaction that makes an immediate profit without involving any risk. Technically, it consists of purchasing a commodity or security in one market for immediate sale in another market.

Autonomous Investment

Autonomous investment is the level of investment independent of national output. This includes Government investment, investment to replace worn out capital and any other type of investment that is not dependent on change in Goal.

Average Variable Cost

Total Variable cost divided by number of units produced.

Average Cost

The Average Cost is the Total Cost divided by the total output.

Average Propensity to Consume

Average propensity to consume is the percentage of income spent. To find the percentage of income spent one needs to divide consumption by income.

Average Propensity to Import

The proportion of total disposable income (per individual, per household or national), which is spent on imports.

Average Propensity To Save

Average propensity to save (APS) is an economic term that refers to the proportion of income which is saved usually expressed by household savings as a percentage of total household disposable income. The inverse of average propensity to save is the average propensity to consume.

Average Rate of Tax

An average tax rate is the ratio of the amount of taxes paid to the tax base (taxable income or spending).

Average Revenue

The revenue received from selling a good per unit of output sold, found by dividing total revenue by quantity of output.

Aggregate Demand

Aggregate demand is the total demand for goods and services from all sectors of the economy (from individuals, companies, the government and exporters) during a given period at a given price level. More clearly, it is the sum of consumption expenditure, investment expenditure, government expenditure and net export.

Accrual Basis

The basis of accounting under which revenues and expenses are recorded on the basis of period when they were earned or when their benefits were received irrespective of their corresponding cash transaction.

Alternate Minimum Tax

The tax liability calculated by an alternative set of rules designed to force individuals with high levels of preference income to incur at least some tax liability.

B

Bad Debt

A bad debt is an amount owed to a business or individual that is written off by the creditor as a loss (and classified as an expense) because the debt cannot be collected, and all reasonable efforts to collect it have been exhausted. This usually occurs when the debtor has declared bankruptcy or the cost of pursuing further action in an attempt to collect the debts exceeds the debt itself.

Balanced Budget

A budget where expenditure and revenue are equal. This is the ideal situation, though Keynes said that governments should aim to run a deficit during a depression to encourage economic activity, and a surplus during a boom in order to cool down economic activity.

Balance Sheet

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

Bank Rate

Bank Rate is the rate at which the central bank of the country (Bank Rate in India is decided by RBI) allows finance to commercial banks. Bank Rate is a tool, which central bank uses for short-term purposes.

Balanced Budget Multiplier

Balanced Budget Multiplier states that an increase in government expenditure plus an equal increase in taxes leads to higher output.

Balance of Payments

A statistical compilation formulated by a sovereign nation of all economic transactions between residents of that nation and residents of all other nations during a stipulated period of time, usually a calendar year.

Base Currency

Currency against which currencies of other currencies are quoted.

Book Value

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

Base Year

Year immediately prior to first year of spending review period.

Base Period

A particular period of time used for comparative purposes when measuring economic data.

Basis Point

One-hundredth of a percentage point. Small movements in the interest rate, the exchange rate and bond yields are often described in terms of basis points. If a bond yield moves from 5.25% to 5.45%, it has risen by 20 basis points.

Base Budget

Cost of continuing the existing levels of service in the current budget year.

Barter

Paying for goods or services with other goods or services, instead of with money. It is often popular when the quality of money is low or uncertain, perhaps because of high inflation or counterfeiting, or when people are asset-rich but cash-poor, or when taxation or extortion by criminals is high.

Bill

A draft legislative proposal which becomes an Act when passed by both Houses of Parliament and assented to by the President.

Budget

A plan for allocating resources to support particular services, purposes and functions over a specified period of time.

Borrowings

Funds obtained from repayable sources, including loans secured by the government from financial institutions and other sources, both internal and external, to finance development projects and/or budget support.

Broad Money

A calculation of money supply including liquid cash and money which could be used for purchases, such as deposit in banks.

Board of Appeals

A public body (other than a court) charged with the duty of hearing and deciding appeals taken by taxpayers or tax districts on assessments established by public officers or bodies other than the courts.

Bear

A "bear" is considered to be the opposite of a bull. Bear investors believe that the value of a specific security or an industry is likely to decline in the future.

Black Money

'Black income' is 'the aggregates of incomes which are taxable but not reported to the tax authorities'.

Further, black incomes or unaccounted incomes are 'the extent to which estimates of national income and output are biased downwards because of deliberate, false reporting of incomes, output and transactions for reasons of tax evasion, flouting of other economic controls and relative motives'.

Black Economy

The segment of a country's economic activity that is derived from sources that fall outside of the country's rules and regulations regarding commerce.

Bounded Rationality

A theory of human decision making that assumes that people behave rationally, but only within the limits of the information available to them because their information may be inadequate (bounded). They may take decisions that appear to be irrational according to traditional theories about economic man.

Buyer's Market

A market which has more sellers than buyers. Low prices result from this excess of supply over demand, also called soft market.

Budget Deficit

The budget deficit is the amount by which government spending exceeds government revenues during a specified period of time usually a year.

Budget Surplus

Excess of income over spending for a government, corporation or individual over a particular period of time. A government with a budget surplus may choose to start new programs or cut taxes. A corporation with a surplus may expand the business through investment or acquisition, or may choose to buy back its own stock. An individual with a budget surplus may choose to pay down debt or increase spending or investment.

Budget Estimates

The estimates of government spending on various sectors during the year, together with an estimate of the income in the form of tax revenues, form the Budget estimates.

Block Grant

A large amount of money that a national government gives to a regional government with only general parameters on how it should be spent.

Bull

An investor who thinks the market, a specific security or an industry will rise. Investors who take a bull approach will purchase securities under the assumption that they can be sold later at a higher price.

Bank Guarantee

A guarantee from a lending institution ensuring that the liabilities of a debtor will be met. In other words, if the debtor fails to settle a debt, the bank will cover it. A bank guarantee enables the customer (debtor) to acquire goods, buy equipment, or draw down loans, and thereby expand business activity.

C

Capital

Capital is that part of wealth of an individual or community which is used for further production of wealth. e.g. machines.

Capital Account

A country's national account showing the capital invested in infrastructure, or a firm's account showing investment in plant and other assets.

Cartel

A cartel is a formal agreement among competing firms. It is a formal organization where there is a small number of sellers and usually involve homogeneous products. Cartel members may agree on such matters as price fixing, total industry output, market shares, allocation of customers, allocation of territories, bid rigging, establishment of common sales agencies, and the division of profits or combination of these. The aim of such collusion (also called the cartel agreement) is to increase individual members' profits by reducing competition.

Collusion

Where two persons (or business entities through their officers or other employees) enter into a deceitful agreement, usually secret, to defraud and/or gain an unfair advantage over a third party, competitors, consumers or those with whom they are negotiating. Collusion can include secret price or wage fixing, secret rebates, or pretending to be independent of each other when actually conspiring together for their joint ends.

Capital Budgeting

The process of choosing the firm's long-term capital assets among various alternatives available. This technique is based on pure cash flows.

Capital Commitment

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

Capital Expenditures/Outlays

Funds used by a company to acquire or upgrade physical assets such as property, industrial buildings or equipment. This type of outlay is made by companies to maintain or increase the scope of their operations. These expenditures can include everything from repairing a roof to building a brand new factory.

Capital Reserve

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

Capital Flight

The rapid movement of capital out of a country because of lack of confidence in that country's economic future in response to political unrest, war, or other conditions.

Capitalization

In accounting, it is where costs to acquire an asset are included in the price of the asset.

Capital Revenue

Proceeds from the sale of fixed or capital assets, such as land, building, machinery, stocks and intangibles, including receipts of unrequited transfers for capital purposes from non-governmental sources.

Capital Inflow

Movement of capital into a country by buying shares in companies, buying whole companies or other forms of investment.

CRR

CRR means Cash Reserve Ratio. Banks in India are required to hold a certain proportion of their deposits in the form of cash. However, actually Banks don't hold this as cash with themselves, but deposit such cash with Reserve Bank of India (RBI) / currency chests, which is considered as equivalent to holding cash with RBI.

Capital Formation

Expansion of capital or capital goods through savings, which leads to economic growth or a sustained increase in the stock of real capital in the country, it includes production of more capital goods like machines, tools etc. which are used for further production of goods.

Capital Gains Tax

The tax levied on profits from the sale of capital assets.

Capital Intensive

A business process or an industry that requires large amounts of money and other financial resources to produce a good or service. A business is considered capital intensive based on the ratio of the capital required to the amount of labour that is required. Some industries commonly thought of as capital intensive include oil production and refining, telecommunications and transports such as railways and airlines.

Capitalization of Taxes

The act of incorporating the tax amount in the price of assets is known as capitalization of taxes.

Cash Budget

Cash budget is a detailed plan showing how cash resources will be acquired and used over some specific time period.

Ceteris Paribus

Latin expression meaning 'other things being equal', used to indicate that when considering the effect that one factor has on the economy, the influence of other factors is not taken into account.

Closed Economy

An economy that does not take part in international trade.

Circular Flow of Income

The flow of income between the producers and the households who buy their goods or services. Income moves from households to producers as the households purchase goods or services; income moves from producers to households in the form of wages or profits.

Cointegration

In statistics, the calculation of the relationship between economic data measured over a long period of time.

Contractionary Fiscal Policy

Government policy which aims at decreasing government spending or increasing taxes; this would have the effect of reducing demand in the economy. Also called deflationary fiscal policy.

Consolidated Fund

All revenues received by Government, the loans raised by it, and receipts from recoveries of loans granted by it form the Consolidated Fund.

Contingency Fund

A contingency fund is simply a reserve fund set aside to handle unexpected debts that are outside the range of the usual operating budget. This model of maintaining reserve money as protection against possible loss in the event of an emergency situation can be utilized in a number of situations. Governments, private businesses, and even individual households can establish and maintain a contingency fund as part of the overall financial plan of operation.

Contingent Liability

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

Convergence

Convergence of resources is to channelize the resources and strengths of various agencies for a particular thrust activity. This will enable planners to view schemes of each agency and the physical and financial resources available and thus, systematically link every bit to become part of a whole.

Current Assets

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

Convertibility

A bond, debenture or preferred share that may be exchanged by the owner for common stock or another security, usually of the same company, in accordance with the terms of the issue.

Current Operating Expenses

Amount budgeted for the purchase of goods and services for the conduct of normal government operations within the budget year. It includes goods and services that will be used or consumed during the budget year.

Cost-Benefit Analysis

A process by which you weigh expected cost against expected benefits to determine the best (or most profitable) course of action.

Customs

Anything you bring from abroad comes at a price. By levying a tax on imports, the government achieves twin objectives: it raises revenues and protects local industries.

Cost-Push Inflation

Cost push inflation is inflation caused by an increase in prices of inputs like labour, raw material, etc. The increased price of the factors of production leads to a decreased supply of these goods. While the demand remains constant, the prices of commodities increase causing a rise in the overall price level.

Creeping Inflation

The normal inflationary position in many countries, where inflation increases by small amounts each year.

Critical Path Analysis

The analysis of the way a project is organized in terms of the minimum time it will take to complete, defining tasks or jobs and the time each requires, arranged in order to achieve completion on time but calculating which parts can be delayed without holding up the rest of the project and which need to be accelerated.

Crowding Out Effect

An economic theory explaining an increase in interest rates due to rising government borrowing in the money market.

Collateral

An asset pledged by a borrower that may be seized by a lender to recover the value of a loan if the borrower fails to meet the required interest charges or repayments.

Command Economy

When a government controls all aspects of economic activity.

Competitive Advantage

An advantage that a firm has over its competitors, allowing it to generate greater sales or margins and/or retain more customers than its competition. There can be many types of competitive advantages including the firm's cost structure, product offerings, distribution network and customer support.

Currency Appreciation

An increase in the value of a currency against another currency. It can also be defined as rise in external value of a currency in floating exchange rate system.

Currency Depreciation

A fall in the value of a currency against another currency. It can also be defined as fall in external value of a currency in floating exchange rate system.

Currency Swap

An agreement to use a certain currency for payments under a contract in exchange for another currency. The two companies involved can each buy one of the currencies at a more favourable rate than the other.

Current Expenditure

Includes most direct expenditure on public sector pay and providing services, e.g. health or education, reflecting continuing programmes financed each year. It does not include the purchase of tangible, physical assets.

Consumption Tax

A tax on the value of all goods and services consumed within a period of time

Consumer Surplus

The difference between what a consumer would be willing to pay for a good or service and what that consumer actually has to pay.

Cash Limits

Limits on the amount of money the Government proposes to spend or authorize on certain services or blocks of services in one year.

Capital Goods

Any tangible assets that an organization uses to produce goods or services such as office buildings, equipment and machinery. Consumer goods are the end result of this production process.

Cenvat

A replacement for the earlier MODVAT scheme; it is meant for reducing the cascading effect of indirect taxes on finished products. The scheme is a more extensive one with most goods brought under its preview.

Capital Budget

Consists of capital receipts and payments, loans and advances granted by the Union Government to State and Union Territory governments, government companies, corporations and other parties. This also accounts for market loans, borrowings from the Reserve Bank of India and other institutions through the sale of Treasury Bills and loans acquired from foreign governments.

Credit Crunch

When banks suddenly stop lending, or bond market liquidity evaporates, usually because creditors have become extremely risk averse.

Categorical Grant

A type of inter-governmental payment which is characterized by extensive restrictions on the uses to which the funds may be “spent” by the recipient government

Corporation Tax

It's the tax companies pay on their profits.

Contractionary Policy

A type of policy that is used as a macroeconomic tool by the country's central bank or finance ministry to slow down an economy. Contractionary policies are enacted by a government to reduce the money supply and ultimately the spending in a country.

Consolidated Fund of India

All revenues received by the Government by way of taxes like Income Tax, Central Excise, Customs and other receipts flowing to the Government in connection with the conduct of Government business i.e. Non-Tax Revenues are credited into the Consolidated Fund constituted under Article 266 (1) of the Constitution of India. Similarly, all loans raised by the Government by issue of Public notifications, treasury bills (internal debt) and loans obtained from foreign governments and international institutions (external debt) are credited into this fund. All expenditure of the government is incurred from this fund and no amount can be withdrawn from the Fund without authorization from the Parliament.

Contingency Fund of India

The Contingency Fund of India records the transactions connected with Contingency Fund set by the Government of India under Article 267 of the Constitution of India. The corpus of this fund is Rs. 50 crores. Advances from the fund are made for the purposes of meeting unforeseen expenditure which are resumed to the Fund to the full extent as soon as Parliament authorizes additional expenditure. Thus, this fund acts more or less like an imprest account of Government of India and is held on behalf of President by the Secretary to the Government of India, Ministry of Finance, Department of Economic Affairs.

Controller General of Accounts

Controller General of Accounts is the principal Accounts Adviser to the Government of India and is responsible for establishing and maintaining a technically sound management accounting system.

He prepares a critical analysis of expenditures, revenues, borrowings and the deficit for the Finance Minister every month.

He also prepares annual Appropriation Accounts (Civil) and Union Finance Accounts for presentation to the Parliament.

Comptroller and Auditor General (CAG) of India

CAG of India is an authority, established by the Constitution of India under article 148, who audits all receipts and expenditure of the Government of India and the state governments, including those of bodies and authorities substantially financed by the government. The CAG is also the external auditor of Government-owned corporations and conducts supplementary audit of government companies, i.e., any non-banking/ non-insurance company in which the state and Union governments have an equity share of at least 51 per cent or subsidiary companies of existing government companies.

Cash Basis of Accounts

The basis of accounting under which revenues and expenses are recorded on the basis of the actual cash receipts and disbursements during a financial year. Government accounts are being prepared on cash basis with the exception of such book adjustments as may be authorised by these rules or by any general or special orders issued by the Central Government on the advice of the Comptroller and Auditor General of India.

D

Default

Failure to fulfill the terms of a loan agreement. For example, a borrower is in default if he or she does not make scheduled interest payments on a loan or fails to pay off the loan at the agreed time.

Deficit

Shortfall/deficiency of revenues over expenditures of the government.

Deficit Financing

Deficit Financing **is the** practice in which a government spends more money than it receives as revenue, the difference being made up by borrowing or minting new funds. Although budget deficits may occur for numerous reasons, the term usually refers to a conscious attempt to stimulate the economy by lowering tax rates or increasing government expenditures.

Deflate

To reduce the level of economic activity as a means of fighting inflation.

Debt Service

The sum of loan repayments, interest payments, commitment fees and other charges on foreign and domestic borrowings.

Debt Burden

The cost of servicing a debt, i.e. the interest payments payable on a loan.

Debtor Nation

A country whose foreign debts are bigger than money owed to it by other countries.

Debt Capitalization Rate

Debt component of an overall direct capitalization rate. Computed by dividing annual interest rate payments by the market value of debt.

Debt Service

The sum of loan repayments, interest payments, commitment fees and other charges on foreign and domestic borrowings.

Debt Swap

A set of transactions in which a firm buys a country's dollar bank debt at a discount and swaps this debt with the central bank for local currency that it can use to acquire local equity. Also called a debt-equity swap in which a company exchanges existing bonds (debts) for newly issued stock (equity).

Deferred Taxes

A non-cash expense that provides a source of free cash flow. Amount allocated during the period to cover tax liabilities that have not yet been paid.

Deferred Expenditure

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

Deferred Revenue

Deferred revenue is, in accrual accounting, money received for goods or services which have not yet been delivered. According to the revenue recognition principle, it is recorded as a liability until the services have been rendered or products have been delivered. As the product or service is delivered overtime, it is recognized as revenue on the income statement.

Debt Rate

Interest rate on borrowed money

Depreciation

Normally, charges against earnings to write off the cost, less salvage value, of an asset over its estimated useful life. It is a bookkeeping entry and does not represent any cash outlay nor are any funds earmarked for the purpose.

Devaluation

Devaluation is the reduction in value of a currency, relative to all other currencies. In a fixed-rate regime, only a country's central bank can undertake devaluation of its currency. The impact of devaluation is to make exports less expensive to foreign buyers and imports more expensive for domestic buyers. Thus devaluation will shift a country's trade balance, or balance of payments.

Depletion

Depletion is the movement of the cost of natural resources from a company's balance sheet to its income statements. The objective is to match on the income statement the *cost* of the natural resources that were sold with the *revenues* of the natural resources that were sold. The cost of the natural resources sold is referred to as depletion expense. Conceptually, depletion is similar to the depreciation of property, plant and equipment.

Diminishing Balance Method

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

Disinflation

A fall in the rate of inflation. This means a slower increase in prices but not a fall in prices, which is known as deflation.

Disposable Income

The amount of personal income an individual has after taxes and government fees, which can be spent on necessities, or non-essentials, or be saved.

Dual Economy

An economy where both technically advanced and technically primitive sectors exist, as in developing countries where advanced technology is applied to extracting minerals or manufacturing while at the same time large parts of the country exist at subsistence level.

Dummy Variable

A variable with the value of either 1 or 0, used to indicate that some characteristic is present or absent.

Demand for Grants

A statement of expenditure estimate from the Consolidated Fund that requires the approval of the Lok Sabha.

Dividend

The part of a company's profit distributed to shareholders. It is an appropriation of profit and not a charge against the profit hence not deducted while computing the tax on profit.

Disparity Reduction Aid

A general purpose aid program designed to assist in the equalization of local tax rates.

Distribution Function

Relates to the influence of government on the distribution of income and wealth among individuals.

Dominant Firm

A firm with the ability to set prices in its market.

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.

Dumping

The sale of goods in a foreign market at a price that is below the price realized in the home country, after allowing for all costs of transfer including transportation charges and duties. The motive may be to enhance revenues, offload surplus stocks or a predatory intent of killing foreign competition.

Direct Tax

A tax that is paid directly by an individual or organization to the imposing entity. A taxpayer pays a direct tax to a government for different purposes, including real property tax, personal property tax, income tax or taxes on assets.

Derivatives

A security whose price is dependent upon or derived from one or more underlying assets. The derivative itself is merely a contract between two or more parties. Its value is determined by fluctuations in the underlying asset. The most common underlying assets include stocks, bonds, commodities, currencies, interest rates and market indexes.

Developmental Expenditure

All expenditures that promote economic growth and development are termed as developmental expenditure. Expenditure on infrastructure development, public enterprises or development of agriculture increase productive capacity in the economy and bring income to the government.

E

Earnings

A general term embracing revenue, profit or net income.

Expense

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

Econometric Model

A model of an aspect of the economy, using a statistical approach. Such models are used in forecasting macroeconomic trends.

Earnings-Price-Ratio (E/P)

The ratio of earnings per share available to common stockholders of a specific company for an accounting period to the market price per share of the common stock of that company. The reciprocal of the E/P ratio is the price- earnings ratio (P/E). The E/P ratio is a direct capitalization rate for equity and not a yield rate.

Earnings Per Share

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

Economic Development

Qualitative changes taking place in an economy. It usually refers to the adoption of new technologies, transition from agriculture based to industry based economy and general improvement in living standards.

Economic Efficiency

The reduction of the inputs needed to produce one unit of output, and so increasing the margin to the producer.

Economic Growth

The rate at which a country's national income grows, usually shown as an increase in GDP or GNP or an increase in per capita income. Economic growth is one aspect of the process of economic development. A country may be growing quantitatively by producing same type of goods but it may remain economically undeveloped in the sense qualitative changes may not be taking place.

Economic Indicator

A statistic which shows how the country's economy is going to perform in the short or long term (relating to factors such as unemployment rate or overseas trade).

Economic Welfare

Economic welfare broadly refers to the level of Prosperity and living standards of either an individual or a group of persons. In the field of economics, it specifically refers to utility gained through the achievement of material goods and services.

Economies of Scale

A situation in which a product is made more profitable by manufacturing it in larger quantities so that each unit costs less to make.

Extraordinary Item

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

Endogenous Growth

The theory that in the long run economic growth is governed by factors within the national system and not by factors outside it.

Equilibrium Level of National Income

The level of national income where there is no tendency to change, that is, where consumption expenditure and production coincide.

Equilibrium Price

The price at which the quantity supplied equals the quantity demanded so that there is no excess of supply or demand.

Effective Demand

The desire on the part of consumers to acquire a good or service, together with their ability to pay for it.

Easement

A right held by one person to use the land of another for a specific purpose, such as access to other property.

Efficiency

The comparison of what is actually produced or performed with what can be achieved with the same consumption of resources (money, time, labor, etc). It is an important factor in determination of productivity.

Effective Yield

The actual return on an investment rather than the yield anticipated or promised when the investment is made.

Efficiency Wages

Wages that are set at above the market clearing rate so as to encourage workers to increase their productivity.

External Balance

The situation in which a country invests abroad the same amount as other countries invest in it. It implies rising foreign currency reserves and a low overseas debt.

External Debt

The portion of a country's debt that was borrowed from foreign lenders including commercial banks, governments or international financial institutions. These loans, including interest, must usually be paid in the currency in which the loan was made.

External Deficit

A deficit in a country's balance of payments.

External Growth

The growth of a firm by buying other companies, rather than by expanding existing sales or products.

Eminent Domain

The power of a government to take property for public purposes. Frequently used to obtain real property that cannot be purchased from owners in a voluntary transaction. Property owner receives fair compensation (market value at the time of the taking) as determined through court proceedings.

Encumbrance

A reservation of funds to cover obligations arising from purchase orders, contracts, or salary commitments that are chargeable to, but not yet paid from, a specific appropriation account.

Equalization

The process by which an appropriate government body attempts to ensure that all property under its jurisdiction is assessed at the same level of assessment.

Equity Yield Rate

The required rate of return on equity capital. It is calculated by dividing periodic cash flow (after debt service but before taxes) by investment in equity.

Equalized Valuations (EQVs)

The determination of an estimate of the fair market value of all property as of a certain taxable date.

Exchange Controls

Limits on the amount of foreign currency that can be taken into a country, or of domestic currency that can be taken abroad.

Exchange Rate

The price of one country's currency expressed in another country's currency. In other words, the rate at which one currency can be exchanged for another. For example, the higher the exchange rate for one euro in terms of one yen, the lower the relative value of the yen.

Expenditure

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

Expected Returns

The capital gain plus income that investors think they will earn by making an investment, at the time they invest.

Expansionary Policy

A policy by monetary authorities to expand money supply and boost economic activity, mainly by keeping interest rates low to encourage borrowing by companies, individuals and banks.

Economic Output

Economic output measures the value of all sales of goods and services. Means it is the sum of the final purchases and intermediate inputs, therefore resulting in the double counting of intermediate purchases.

F

Financing

Means by which a government provides financial resources to cover a budget deficit or allocated financial resources arising from a budget surplus.

Fiscal Year

A twelve-month period on which taxes are calculated.

Factor Cost

Total cost of all factors of production i.e. land, labour, capital and entrepreneur consumed or used in producing of goods.

Factors of Production

An economic term to describe the inputs that are used in the production of goods or services in the attempt to make an economics profit. The factors of production include land, labour, capital and entrepreneurship.

Fiscal Drag

The effect of inflation on a government's tax revenues.

Fiscal Policy

The policy related to government spending and taxing for the specific purpose of stabilizing the economy.

Financial Instrument

Certificate of ownership of a financial asset, such as a bond or a share.

Financial Statement

A presentation of the assets and liabilities of a community as on a particular date and most often prepared after the close of the fiscal year.

Free Good

A good which is in plentiful supply and which has a negligible price.

Fixed Assets

Long-lived, tangible assets such as buildings, equipment and land obtained or controlled as a result of past transactions or circumstances.

Fixed Operating Expenses

Those costs of doing business that do not vary with occupancy or output and that have to be paid whether the property is occupied or vacant.

Fiscal Deficit

Fiscal deficit occurs when the government's non-borrowed receipts fall short of its entire expenditure, it has to borrow money from the public to meet the shortfall. The excess of total expenditure over total non-borrowed receipts is called the fiscal deficit.

Fictitious Assets

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

Finance Bill

The Finance Bill is a Bill that is introduced every year to allow the Government of India to make financial proposals for the next following financial year and includes a Bill to give effect to supplementary financial proposals for any period.

As the Finance Bill contains taxation proposals, it is considered and passed by the Lok Sabha only after the Demands for Grants have been voted and the total expenditure is known.

First In, First Out (FIFO)

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

Fixed Cost

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

Fund

An accounting entity with a self balancing set of accounts that is segregated for the purpose of carrying on identified activities or attaining certain objectives in accordance with specific regulations, restrictions, or limitations.

Foreign Direct Investment (FDI)

FDI is made in India by a company incorporated abroad, through a branch or a subsidiary company set up in India.

Fund Balance

The difference between assets and liabilities reported in a governmental fund. Also known as fund equity

Foreign Institutional Investor

An institution established outside India, which proposes to invest in India.

Fundamental Accounting Assumptions

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

G

Gross Domestic Product

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. The computation is on the basis of value added – the contribution of a producing enterprise is the difference between the value of its finished product and the cost of materials used.

Hence, national output is the total value added by all producing enterprises. More specifically, gross domestic product is expressed as C + I + G + (X – M).

Here C stands for consumption, which is the expenditure by consumers on consumption goods and services. I is 'Gross private Domestic Investment' representing the acquisition of new capital goods (e.g., plant and machinery) and inventory additions by business enterprises, as well as construction of factories, houses, etc. G denotes government expenditure on goods and services. (X-M) represents the difference between exports (S) and imports (M) of goods and services.

Gross National Product

Total market value of the finished goods and services manufactured within the country in a given financial year along with income earned by the local residents from investments made abroad, minus the income earned by foreigners in the domestic market.

GDP Deflator

The amount by which a country's GDP is reduced to take inflation into account.

General Equilibrium

Market situation where demand and supply requirements of all decision makers (buyers and sellers) have been satisfied without creating surpluses or shortages.

General Ledger

The accountant's record of original entry, which is instrumental in forming a paper trail of all government financial activity.

Goods and Services Tax

GST is a comprehensive value- added tax levied on goods and services. In a GST regime, goods and services are not differentiated as they move through the supply chain. GST is typically levied on all transactions involving goods and services including import, supply of goods as well as provision of services. GST is levied on the value added at each stage of sale and purchase or supply with an inbuilt credit mechanism such that the tax is a pass through for businesses, and the tax burden is borne by the ultimate customer.

Global Depository Receipt

A receipt denoting ownership of foreign-based corporation shares which are traded in numerous capital markets around the world. The prices of these GDRs are normally close to the value of embedded shares.

GNP Deflator

The amount by which a country's GNP is reduced to take inflation into account.

Government Expenditure

Spending by a government, municipality or local authority. It covers things such as spending on health, education and social services, and is funded by tax revenue.

Government Securities

Bonds, notes, and other debt instruments sold by a government to finance its borrowings. These are generally long-term securities with the highest market ratings.

General Obligation Bond

It is a type of Municipal Bond where principal and interest are secured by full faith and credit of the issuer and usually guaranteed by either the issuer's unlimited or limited tax paying power. Issuer of such bonds is generally local governments and they're generally issued for the purpose of financing urban infrastructure.

Grant-In-Aid

Such capital and recurring sums as may be necessary to enable a State to meet the costs of such schemes of development as may be undertaken by the State with the approval of the Government of India for the purpose of promoting the welfare of Scheduled Tribes in that State or raising the level of administration of the Scheduled Areas therein to that of the administration of the rest of the areas of that State.

Government Bonds

A debt security issued by a government to support government spending, most often issued in the country's domestic currency. Government debt is money owed by any level of government and is backed by the full faith of the government.

Governmental Accounting Standards Board (GASB)

The ultimate authoritative accounting and financial reporting standard-setting body for state and local governments.

Grants

All non-repayable transfers received from other levels of government or from private individuals, or institutions including repatriation and gifts given for particular projects or programs, or for general budget support.

Government Accounts

The government accounts are kept in three parts :-

(i) Consolidated funds of India

(ii) Contingency funds of India

(iii) Public Account

Government Accounting Standards Advisory Board (GASAB)

GASAB was established by CAG in 2002 to cope with new priorities emerging in Public Finance. GASAB was set up to formulate and improve standard of Government accounting and financial reporting in order to enhance accountability mechanisms

H

Hyperinflation

A condition of economy in which the role of price rises accelerates to extreme proportions. A feature of this kind of inflation is people's extreme reluctance to hold money, and the general social and political upheaval that occurs as whole social classes whose income is more or less fixed in money terms are economically ruined. Such a situation existed in Germany between 1918 and 1923 when in 1923 an inflation rose by 2500% within one month.

Hypothesis

A supposition or explanation (theory) that is provisionally accepted in order to interpret certain events or phenomena, and to provide guidance for further investigation. A hypothesis may be proven correct or wrong, and must be capable of refutation. If it remains unrefuted by facts, it is said to be verified or corroborated.

Hard Currency

A currency, usually from a politically and economically strong country, that is widely accepted around the world as a form of payment for goods and services. A hard currency is expected to remain relatively stable through a short period of time, and to be highly liquid in the forex market. The U.S. dollar and the British pound are good examples of hard currencies.

Hawala

A traditional system of transferring money, whereby the money is paid to an agent who then instructs an associate in the relevant country or area to pay the final recipient.

Horizontal Equity

Horizontal equity means that we apply exactly the same policy to people in the same situation. Tax levy is purely based on financial criterion. For example, if two people earn Rs 25,000 per year, then both of them should pay the same amount of tax.

I

Inventory

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

Indirect Taxes

Taxes levied on goods and services rather than income of the consumer or earner. The burden of this tax is passed over during the different stages of the product. Examples of indirect taxes in India are Excise duty, Custom duty, VAT and Service Tax.

Imports

Purchases of foreign goods and services.

Investment

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

Incidence

A reference to the person or persons who ultimately bear the burden of the tax. Tax incidence is related to the price elasticity of supply and demand. For example, if the government decides to impose an increased tax on cigarettes whose demand is fairly inelastic, the producers may increase the sale price by the full amount of the tax. If consumers still purchased cigarettes in the same amount after the increase in price, it would be said that the tax incidence fell entirely on the buyers.

Internal Audit

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

Internal auditing is a catalyst for improving an organization's effectiveness and efficiency by providing insight and recommendations based on analyses and assessments of data and business processes.

Income Approach

Method of assessing market values of properties which measures value by the present value (sometimes called capitalized value) of the future net income expected to be generated by the property.

Impairment Loss

A special non-recurring charge taken to write down an asset with an overstated book value. Generally an asset is considered to be value-impaired when its book value exceeds the future net cash flows expected to be received from its use. An impairment write down reduces an over- stated book value to fair value.

Indirect Cost

Costs of a service not reflected in the operating budget of the entity providing the service. An example of an indirect cost of providing water service would be the value of time spent by non-water department employees processing water bills. Determination of these costs is necessary to analyze the total cost of service delivery. The matter of indirect costs arises most often in the context of enterprise funds.

Inflation

The process of a persistent and generalized increase in the level of prices, usually measured by the annual rate of exchange of the Retail Price Index.

Inflationary Gap

A situation in which demand exceeds the level of output possible with full employment and so forces a rise in prices.

Inflationary Spiral

A situation in which rising prices encourage higher wage demands which in turn make prices rise.

Inflation Tax

A type of taxation which a government operates by altering the money supply. If the supply of money increases then the value of existing money falls, so creating a type of tax on existing holders of money.

Intergovernmental Revenues

Funds exchanged between levels of government, usually from the federal government to state governments or from state governments to local government.

Interest

Compensation paid or to be paid for the use of money, including amounts payable at periodic intervals or discounted at the time a loan is made. In the case of municipal bonds, interest payments accrue on a day-to-day basis, but are paid every six months.

Interest Rate

The interest payable, expressed as a percentage of the principal available, for use during a specified period of time. It is always expressed in annual terms.

L

Laissez-Faire Economy

An economy where the government does not interfere because it believes it is right to let the economy run itself.

Labour Intensive

A production process that involves comparatively large amounts of labour.

Land

In economics, the surface of the earth and all the natural resources and natural productive powers over which possession of the earth's surface gives man control. In law, a portion of the earth's surface, together with the earth below it, the space above it, and all things annexed thereto by nature or by man.

Laffer Curve

Considers the relationship between tax rates and their respective impact on tax revenue. The curve suggests that as taxes increase from low levels, tax revenue collected by the government also increases. It also shows that tax rates increasing after a certain point would cause people not to work as hard or not at all, thereby reducing tax revenue. Eventually, if tax rates reached 100%, then all people would choose not to work because everything they earned would go to the government.

Levy

An act of imposing a tax or fine.

Line-item Budget

A budget that separates spending into categories, or greater detail, such as supplies, equipment, maintenance, or salaries, as opposed to a program budget.

Long-term Debt

Community borrowing, or outstanding balance at any given time, involving loans with a maturity date of 12 months or more.

Lump Sum Tax

A tax for which the individual's liability does not depend on how much the individual earns.

Licenses and Permits

Documents issued by the county in order to regulate various kinds of businesses and other activities. Inspection may accompany the issuance of a license or permit, as in the case of food- vending licenses or building permits. In most instances, a fee is charged in conjunction with the issuance of a license or permit, generally to cover all or part of the related cost.

M

Marginal Benefit

An increase in benefit which follows from producing one unit more of a good.

Money Laundering

Money laundering is the process by which money obtained illegally is circulated in the economy and is given the appearance of having originated from a legitimate source.

Monetary Policy

The government's policy relating to the money supply, bank interest rates and borrowing.

Marginal Cost

Additional cost of producing one more unit of output

Marginal Revenue

Additional revenue that will be generated by increasing product sales by one unit

Marginal Utility

Marginal Utility theory examines the increase in satisfaction consumers gain from consuming an extra unit of a good. It helps in determining the optimum consumption level which would be when Marginal Utility = Price. If the price is higher than the utility in monetary terms, the consumer would not buy the additional goods. For example, there is no point in paying 75p for a cake when it is only worth 50p.

Marginal Utility Theory

Theory of consumer choice that says that consumers will maximize welfare by allocation of their budget such that the marginal utility per dollar is equalized across all purchased goods.

Market Price

The price a particular buyer and seller agree to in a particular transaction; the amount actually paid.

Maturity Date

The date that the principal of a bond or debt becomes due and payable in full.

Marginal Tax Rate

Measures the additional tax liability for every additional dollar in income.

Macro Economics

Study of the behavior of the whole (aggregate) economies or economic systems instead of the behavior of individuals, individual firms, or markets (which is the domain of Micro Economics). Macro Economics is concerned primarily with the forecasting of national income, through the analysis of major economic factors that show predictable patterns and trends, and of their influence on one another.

Marginal Rate of Substitution

In economics, the marginal rate of substitution is the rate at which a consumer is ready to give up one good in exchange for another good while maintaining the same level of utility. At consumption levels, our marginal rates of substitution are identical.

Monopsony

Monopsony is where there is one buyer with many sellers.

Multiplier

In an economic model, a multiplier is a number that quantifies the relationship between the change in one economic quantity and the change in another directly related economic quantity.

Monopolistic Competition

A market structure in which several or many sellers each produce similar, but slightly differentiated products. Each producer can set its price and quantity without affecting the marketplace as a whole.

Merit Goods

Goods or Services (such as education and vaccination) provided free for the benefit of the entire society by a government, because they would be under-provided if left to the market forces or private enterprise.

Monopoly

Market situation where one producer (or a group of producers acting in concert) controls supply of a good or service, and where the entry of new producers is prevented or highly restricted.

Market Capitalization

The market value of a company's shares calculated by multiplying quoted market price of a share by the total number of shares outstanding. Also known as 'Market Cap'.

M1

A measure of the stock of money in India, which is also referred to as "Narrow Money". M1 is calculated by adding the net demand deposits of banks and 'Other' deposits with the Reserve Bank of India (RBI) to the sum of currency notes and coins held by the public. 'Net demand deposits' comprises current account deposits and a portion of the savings deposits considered as a demand liabilty, all held by the public; 'Other' deposits with RBI refers to funds held by certain institutions like the Industrial Development Bank of India and International Monetary Fund, foreign governments and central banks.

M2

The sum of M1 and post office savings bank deposits.

M3

M3= Net bank credit to the government + Bank credit to the commercial sector + Net foreign exchange assets of the banking sector + Government currency liability to the public – Net non-monetary liabilities of the banking factors (other than time deposit)

M4

The sum of M3 and total post office deposits less National Savings Certifications.

Monetised Deficit

It is the amount by which fiscal deficit is going to be financed by printing of currency.

Monetary Policy

Monetary policy is the process by which the monetary authority of a country controls the supply of money, often targeting a rate of interest for the purpose of promoting economic growth and stability. The official goals usually include relatively stable prices and low unemployment. Monetary theory provides insight into how to craft optimal monetary policy. It is referred to as either being expansionary or contractionary, where an expansionary policy increases the total supply of money in the economy more rapidly than usual, and contractionary policy expands the money supply more slowly than usual or even shrinks it. Expansionary policy is traditionally used to try to combat unemployment in a recession by lowering interest rates in the hope that easy credit will entice businesses into expanding. Contractionary policy is intended to slow inflation in the hope of avoiding the resulting distortions and deterioration of asset values.

Municipal Bonds

Bonds issued by the local government, or their agencies. They are an evidence of the debt obligation of the issuing body. The two basic type of municipal bonds are General Obligation Bonds and Revenue Bonds

N

National Debt

The money borrowed by a government which has not been repaid.

Natural Monopoly

A type of monopoly that exists as a result of the high fixed or start-up costs of operating a business in a particular industry. Because it is economically sensible to have certain natural monopolies, governments often regulate those in operation, ensuring that consumers get a fair deal.

National Income

The total net value of all goods and services produced within a nation over a specified period of time, representing the sum of wages, profits, rents, interest, and pension payments to residents of the nation.

National Income Accounts

National accounts showing the value of goods and services produced and sold both domestically and exported over a period of one year. They cover both GDP and GNP, together with other income from investments abroad.

Net Income

The income expected from property after deductions of allowable expenses.

Net Operating Income

A company's operating income after operating expenses are deducted, but before income taxes and interest are deducted. If this is positive value, it is referred to as net operating income, while a negative value is called a net operating loss.

Net Present Value

A discounted cash flow measure to evaluate 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 inflows and outflows (including initial outlay).

Net Lending

Advances by the national government for the servicing of government guaranteed corporate debt during the year, net of repayments on such advances. Includes loans outlays or proceeds from program loans relating to government corporations.

Net Assets

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

Net Profit

The excess of revenue over expenses during a particular accounting period. When the result of this computation is negative, it is referred to as net loss.

The net profit may be shown before or after tax.

Net Realisable Value

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

Non-Plan Expenditure

Consists of government's Revenue and Capital Expenditure on interest payments, Defence Expenditure, subsidies, postal deficit, police, pensions, economic services, loans to public sector enterprises and loans as well as grants to State governments, Union territories and foreign governments.

Net Domestic Product

The value of all products and services produced in a country less the value of the capital used to produce them.

Non-Tax Revenue

Revenue collected from sources other than compulsory tax levies. Includes those collected in exchange for direct services rendered by government agencies to the public, or those arising from the government's regulatory and investment activities.

Non-Excludability

Consumption of good is non-excludable when it is either very expensive or impossible to prevent anyone from consuming the good.

Non Guaranteed Bond or Revenue Bond

Only revenues from a particular source are pledged to pay the interest and repay the principal to the investors.

Nominal Income

Income that has not been adjusted for inflation and decreasing purchasing power.

Non-Developmental Expenditure

Expenditures in the nature of consumption such as Defence, interest payments, expenditure on law and order, public administration, do not create any productive asset which can bring income or returns to the government are non-developmental expenditure.

O

Open Economy

An economy which is open for commercial transactions with the rest of the World.

Opportunity Cost

Opportunity cost is the cost of any activity measured in terms of the value of the next best alternative forgone.

Operating Expenses

An expense incurred in carrying out an organizations day- to- day activities but not directly associated with production. Operating expenses includes such things as payroll, sales commission, employee benefits and pension contributions, transportation and travel, amortization and depreciation, rent repairs & taxes.

Ownership

The rights to the use of property, to the exclusion of others.

Obsolescence

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

P

Pareto Efficiency

An economic state where resources are allocated in the most efficient manner. Pareto efficiency is obtained when a distribution strategy exists where one party's situations cannot be improved without making another party's situation worse. Pareto efficiency does not imply equality or fairness.

Prior Period Item

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

Partial Exemptions

The amount of otherwise-taxable assessed value removed from tax liability by constitutional and/or statutory action.

Pareto Improvement

A reallocation of resources that makes one person better off without making anyone else worse off.

Performance Budget

Performance budgeting is generally understood as a system of presentation of public expenditure in terms of functions, programme, performance, units viz activities / project etc reflecting primarily the government output and its cost. It is essentially a process which brings out the total government operations through a classification by functions, programs and activities.

Provision

An amount written off or retained by way of providing for depreciation or diminution in the value of assets or retained by way of providing for any known liability the amount of which cannot be determined with substantial accuracy. In other words, it can be measured only by using substantial degree of estimation.

Permanent Debt

Borrowing by a community typically involving a debt service.

Proportional Taxation

The burden of taxation remains the same over all levels of income.

Public Good

A commodity that is non-rival in consumption. The fact that one person consumes it does not prevent anyone else from doing so as well.

Public Private Partnerships (PPPs)

Arrangements whereby the public and private sectors form joint ventures to deliver public services. They can be classified in national accounts to either the public or private sectors depending on which party has the larger share.

Phillips Curve

The relationship formalized as a curve on a graph between the percentage change of wages and the rate of unemployment in the market economy.

Private Good

A good which must be paid for, and of which the supply is reduced as it is consumed.

Propensity to Tax

The ratio between national income and the tax which is taken from it by a government.

Progressive Tax Structure

A tax structure in which the marginal tax rate increases as the level of income increases.

Public Debt

The national debt, plus other debts for which the central government is ultimately responsible, such as the debts of nationalized industries.

Public Expenditure

The term 'Public Expenditure' refers to the expenses incurred by the Government for its own maintenance and also for the preservation and welfare of society and economy as a whole. It refers to the expenses of the public authorities, Central, State and Local Governments, for protecting the citizens and for promoting their economic and social welfare.

Public Spending

Spending by the government or by local authorities.

Public Utilities

Companies (such as electricity, gas or transport) which provide a service used by the whole community.

Peak Rate

Is the highest rate of Customs Duty applicable on an item.

Performance Audit

Performance audits are independent reviews of government- funded organizations. They seek to assess the efficiency and effectiveness with which the funds are being utilised since these funds belong to public. Such utilisation is to be analyzed from both financial and social viewpoint. The examination is done using structured and professionally adopted methodologies.

Plan Expenditure

Money given from the government's account for the Central Plan is called Plan Expenditure. It consists of both Revenue Expenditure and Capital Expenditure, Central Assistance to States and Union Territories.

Public Finance

The branch of economics that is concerned with the finances of the government. Thus, it studies taxation, the government budget and its expenditure and the influence that these have on money market and the economy generally. An important aspect of the public finance is the efficiency with which the funds at the disposal of the government are used to achieve its policy aims and ways in which the effectiveness of the government's financial arrangement can be improved. Public finance is one of the oldest branches of economics.

Plan Outlay

Is the amount for expenditure on projects, schemes and programmes announced in the Plan. The money for the Plan Outlay is raised through budgetary support and internal and extra-budgetary resources. The budgetary support is also shown as plan expenditure in government accounts.

Primary Deficit

Fiscal Deficit minus Interest payments. It indicates how much of the government borrowings are going to meet expenses other than the interest payments on earlier loans.

Progressive Tax

Is a tax where the rich pay a larger percentage of income than the poor.

Public Account

It is an account where money received through transactions not relating to consolidated fund is kept.

Public Account

In the Public Account constituted under Article 266 (2) of the Constitution, the transactions relate to debt other than those included in the Consolidated Fund of India. The transactions under Debt, Deposits and Advances in this part are those in respect of which Government incurs a liability to repay the money received or has a claim to recover the amounts paid. The transactions relating to `Remittance' and `Suspense' shall embrace all adjusting heads. The initial debits or credits to these heads will be cleared eventually by corresponding receipts or payments. The receipts under Public Account do not constitute normal receipts of Government. Parliamentary authorization for payments from the Public Account is therefore not required.

R

Recession

A period in the trade cycle in which there is temporary unemployment of workers and machinery. Traditionally, such periods are also associated with falling price and wages. When a recession lasts for longer than a couple of years, it is known as depression.

Recessionary Gap

The amount by which equilibrium GDP falls short of full-employment GDP. This leads to lower prices and the government has to take fiscal measures to correct the problem.

Risk Management

The process of identification, analysis and either acceptance or mitigation of uncertainty in investment decision-making. Essentially, risk management occurs anytime an investor or fund manager analyzes and attempts to quantify the potential for losses in an investment and then takes the appropriate action (or inaction), given their investment objectives and risk tolerance. Inadequate risk management can result in severe consequences for companies as well as individuals.

Repo Rate

The rate at which the RBI lends money to the commercial banks. It is an instrument of monetary policy. Whenever banks have any shortage of funds they can borrow from the RBI. A reduction in the repo rate helps banks get money at a cheaper rate and vice-versa. The repo rate in India is similar to the discount rate in the US.

Reverse Repo Rate

Reverse Repo rate is the rate at which banks park their short-term excess liquidity with the RBI. The banks use this tool when they feel that they are stuck with excess funds and are not able to invest anywhere for reasonable returns. An increase in the reverse repo rate means that the RBI is ready to borrow money from the banks at a higher rate of interest. As a result, banks would prefer to keep more and more surplus funds with RBI.

Raise and Appropriate

A phrase used to identify a funding source for an expenditure or expenditures which refers to money generated by the tax levy, or other local receipt.

Reflate

To improve the economy of a country by increasing the amount of money tha t people are earning and spending in the country. And reflation is the effort to fight deflation by increasing the money supply, lowering interest rates and increasing Government spending.

Reflation

The act of stimulating the economy by increasing the money supply or by reducing taxes.

Reflationary Policy

A policy which aims to stimulate economic activity. Such a policy can be fiscal, by reducing the level of taxation, or monetary such as increasing government spending.

Regressive Tax

A tax system that provides that average tax rates decrease with increases in individuals' income brackets.

Revenue

All funds that the country receives, including tax payments, fees for specific services, receipts from other governments, fines, forfeitures, shared revenues, and interest income.

Real Terms Figures

Amounts adjusted for the effect of general price inflation as measured by the GDP market price deflator. Enables comparisons of spending across years without the distortion caused by price changes.

Regional Policy

The policy of a central government towards the regions of the country, by which it hopes to encourage economic development and raise the standard of living in certain deprived regions.

Repressed Inflation

Inflation prevented by the government through direct controls without removing the underlying inflationary pressures. Actual inflation exists as per the market forces. If such inflation prevails for a long time, it generally leads to short supply of goods and encourages practices such as black marketing and hoarding.

Reserve Currency

A strong currency used in international finance, held by other countries to support their own weaker currencies.

Regressive Tax

Is a tax in which the poor pay a larger percentage of income than the rich. Progressive Tax is the exact opposite of regressive tax.

Revenue Deficit

Is the difference between Revenue Expenditure and Revenue Receipts.

Revenue Budget

Consists of Revenue Receipts and Revenue Expenditure of the government.

Revised Estimates

Is the difference between the Previous Budget Estimates and the actual expenditure, which is usually presented in the following Budget.

Revenue Expenditure

Expenditure that does not result in the creation of assets. This refers to the money spent on the normal functioning of the government departments and various other services such as interest charges on debt incurred by the government .

Revenue Receipt

Consists of tax collected by the government and other receipts consisting of interest and dividend on investments made by government, fees and other receipts for services rendered by government.

Revenue Surplus

Revenue surplus is the excess of Revenue Receipts over Revenue Expenditures. "Revenue receipts" refer to all money the business makes through its operations and Revenue Expenditures are all the expenditures which are incurred in the day- to- day conduct of business.

Revenue Bonds

A type of bond that is issued to finance a revenue producing enterprise, with principal and interest payable exclusivly from the earnings and other revenues of the enterprise. Revenue Bonds account for a majority of municipal bonds used to finance infrastructure, including water, sewer, and solid waste systems. They are generally tax-exempt.

Returns to Scale

Returns to scale arises in the context of a firm's production function. It explains the behavior of the rate of increase in output (production) relative to the associated increase in the inputs (the factors of production) in the long run.

S

Sales Tax

A tax levied as a percentage of retail sales.

Statement of Profit and Loss

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

Stagflation

Stagflation is a situation in which the inflation rate is high and the economic growth rate slows down and unemployment remains steadily high. It raises a dilemma for economic policy since actions designed to lower inflation or reduce unemployment may actually worsen economic growth.

SLR

SLR stands for Statutory Liquidity Ratio. This term is used by bankers and indicates the minimum percentage of deposits that the bank has to maintain in form of gold, cash or other approved securities.

Short-term Debt

Outstanding balance, at any given time, on amount borrowed with a maturity date of 12 months or less.

Straight Line Method

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

Sundry Debtor

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

Special Purpose Vehicle (SPV)

The SPV is usually a subsidiary company with an asset/liability structure and legal status that makes its obligations secure even if the parent company goes bankrupt. The main objective of SPV is to distinguish it from the originator.

Surplus

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

Special Assessment Exemption

Full discharge from the payment of betterments and special exemptions granted only to government properties occupied for public purposes.

Stabilization Function

Involves the influence of the government on the overall level of economic activity.

Surcharge

An incremental increase in a particular, already existing charge, that is, an amount added to a tax, a fee, a fine or penalty.

Surplus Revenue

The amount by which cash, accounts receivable, and other assets exceed liabilities and reserves.

Securities Transaction Tax (STT)

Applicable if dealing in shares or mutual fund units. It was introduced in the 2004-05 budget, replacing the tax on profits earned from the sale of shares held for more than a year (known as long-term capital gains tax).

Subsidy

A benefit given by the government to groups or individuals usually in the form of a cash payment or tax reduction. The subsidy is usually given to remove some type of burden and is often considered to be in the interest of the public.

SDR (Special Drawing Right)

An artificial currency unit based upon several national currencies. The Special Drawing Right serves as the official monetary unit of several international organizations including the International Monetary Fund, and acts as a supplemental reserve for national banking systems. For members of the IMF, the Special Drawing Rights can be used to settle trade balances between countries and to repay the IMF. An IMF member country has to supply its own currency to another member country in exchange for SDRs, unless that country already holds a certain specified amount of SDRs.

Soft Currency

Opposite to hard currency, a currency that is expected to fluctuate erratically or depreciate relative to other currencies.

T

Tax Basis

In the context of finance, the original cost of an asset less depreciation that is used to determine gains or losses for tax purposes.

Tax Anticipation Notes

Tax anticipation notes are notes issued by states or municipalities to finance current operations before tax revenues are received. When the issuer collects the taxes, the proceeds are then used to retire debt.

Tax Incidence

Tax incidence is the analysis of the effect of a particular tax on the distribution of economic welfare. Tax incidence is said to "fall" upon the group that ultimately bears the burden of, or ultimately has to pay, the tax

Tax Shifting

Instance when a tax levied on one person is shifted to another.

Temporary Debt

Borrowing by a community in the form of notes and for a term of one year or less.

Turnover Tax

A turnover tax is similar to a sales tax or a VAT, with the difference that it taxes intermediate and possibly capital goods. It is an indirect tax, typically on an ad valorem basis, applicable to a production process or stage.

Trade Deficit

A situation in which a country imports more than it exports and so pays out more in foreign currency than it earns.

Transition Economy

An economy which is moving from a centrally planned state to a free market economy.

Trickle-Down

The economic theory that the poorest members of society can be more easily helped by the effects of increased economic activity rather than by welfare payments from the government.

Tariff

A tax or a duty on imports, which can be levied either on physical units, e.g. per tonne (specific), or on value (ad valorem). Tariffs may be imposed for a variety of reasons including: to raise government revenue, to protect domestic industry from subsidized or low-wage imports, to boost domestic employment, or to ease a deficit on the balance of payments. Apart from the revenue they raise, tariffs achieve little good-they reduce the volume of trade, increase the price of the imported commodity to the consumers, and decrease the return to producers of exportable by causing resources to be diverted into producing more of the imported commodity at home.

Tax Buoyancy

Tax buoyancy is an indicator to measure efficiency & responsiveness of revenue mobilization in response to growth in the Gross domestic product or National income. A tax is said to be buoyant if the tax revenues increase more than proportionately in response to a rise in national income or output.

U

Unanticipated Inflation

When inflation is volatile from year to year, it becomes difficult for individuals and businesses to correctly predict the rate of inflation in the near future. Unanticipated inflation occurs when economic agents (i.e. people, businesses and governments) make errors in their inflation forecasts.

Union Excise Duty

Duty imposed on goods manufactured in the country.

V

Value-Added Tax

Is a tax levied on a firm as a percentage of its value added, to avoid the multiplying effect of taxes as the product passes through different stages of production. The tax is based on the difference between the value of the output and the value of the inputs used to produce it. The aim is to tax a firm only for the value added by it to the inputs it is using for manufacturing its output.

Vertical Equity

Vertical Equity means that people with higher wealth should be required to pay more tax. The purpose of vertical equity is to redistribute wealth in the society in a more progressive way. It is applied on the basis of wealth or other factors rather than the income of the individual.

Vote on Account

In a democratic set-up, Government is anxious to give Parliament full opportunity to discuss the budgetary provisions and the various proposals for taxation. Since Parliament is not able to vote the entire budget before the commencement of the new financial year, the necessity to keep enough finance at the disposal of Government in order to allow it to run the administration of the country remains. A special provision is, therefore, made for "Vote on Account" by which Government obtains the Vote of Parliament for a sum sufficient to incur expenditure on various items for a part of the year.

W

Working Capital

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

Warranted Growth Rate

The warranted growth rate is the growth rate at which all saving is absorbed into investment. If, for example, people save 10 percent of their income, and the economy's ratio of capital to output is four, the economy's warranted growth rate is 2.5 percent (ten divided by four). This is the growth rate at which the ratio of capital to output would stay constant at four.

Welfare Economics

The branch of economics that is concerned with defining economic efficiency, analyzing it in different systems of resource allocation, and seeking from this analysis to draw certain conclusions regarding the welfare of individuals and society. Welfare economics was pioneered by the Italian engineer and social theorist Vilfredo Pareto, who concluded that the price system operating in perfectly competitive markets would maximize everyone's utility. Theoretical welfare economics has on the whole been concerned to uphold axiom, while applied welfare economics such as cost – benefit analysis has been in the main based on this assumption.

Y

Yield

This refers to the interest or dividends received from a security and is usually expressed annually as a percentage based on the investment's cost, its current market value or its face value.

Yield to Maturity (YTM)

The average rate of return in outstanding debt issues taking into consideration current price, interest payments and capital gains or losses at maturity of the issue. It can also be defined as internal rate of return on bond or debt.

Z

Zero Based Budget

A forward looking budget building technique instead of the traditional budgeting on the basis of previous year data. In this technique, budgets are built around what is needed for the upcoming period, regardless of whether the budget is higher or lower than the previous one. This technique is generally used for a new project or where previous year data could not be used due to changes in the functional areas of the organization.

Zero Growth

A situation in which there is no increase in economic activity, either because of economic stagnation or because of government policies to restrain growth.

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