



A1 A description of property or a person that is in the best condition. In marine insurance, before a vessel can be insured, it has to be inspected to check its condition. If it is 'maintained in good and efficient condition' it will be shown in *Lloyd's Register of Shipping as 'A' and if the anchor moorings are in the same condition the number '1' is added. This description is also used in life assurance, in which premiums are largely based on the person's health. After a medical examination a person in perfect health is described as 'an A1 life'.

AADF Abbreviation for *Association of African Development Finance Institutions.

A & M trust Abbreviation for accumulation and maintenance trust. *See* DISCRETIONARY TRUST; 18–25 TRUST.

abandonment **1.** The surrender of title, rights, or claim to financial assets or any other type of property. **2.** Not exercising an *option at expiry.

abbreviated accounts A shorter form of annual accounts that may be filed by a company qualifying as a small or medium-sized company under the UK Companies Acts. *See also* SUMMARY FINANCIAL STATEMENT.

ABC method *See* ACTIVITY-BASED COSTING.

ABCP Abbreviation for asset-backed *commercial paper.

ABI Abbreviation for *Association of British Insurers.

ABMTN Abbreviation for asset-backed *medium-term note.

abnormal return A rate of return for taking a particular risk that is greater than that required by the market. The excess return is usually measured as being relative to that which the *capital asset pricing model or the *arbitrage pricing theory requires. *See also* ACTIVE MANAGEMENT; ANOMALY; EFFICIENT MARKETS HYPOTHESIS.

above par *See* PAR VALUE.

above-the-line **1.** Denoting the upper part of a company's *profit and loss account, ending with the profit (or loss) for the financial year and excluding the entries explaining the distribution of profit. **2.** Denoting advertising expenditure on mass media advertising, including press, television, radio, and posters. It is traditionally regarded as all advertising expenditure on which a commission is payable to an advertising agency. **3.** Denoting transactions concerned with revenue, as opposed to capital, in national accounts. *Compare* BELOW-THE-LINE.

absolute rate An interest rate expressed as a percentage rather than in relation to a *reference rate.

absolute-rate swap An *interest-rate swap in which the fixed interest rate is expressed in terms of an *absolute rate.

absorption costing (full absorption costing; total absorption costing) The *cost accounting system in which the *overheads of an organization are charged to

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the production by means of a system of **absorption rates**. Although this method has the advantage of simplicity, it involves an essentially arbitrary allocation of costs; for this reason the system of ***activity-based costing** is now widely preferred. *Compare* MARGINAL COSTING.

ACA Abbreviation for Associate of the ***Institute of Chartered Accountants**.

ACCA Abbreviation for ***Association of Chartered Certified Accountants**.

acceptance **1.** The signature on a ***bill of exchange** indicating that the person on whom it is drawn accepts the conditions of the bill. **2.** A bill of exchange that has been so accepted. Acceptances are divided into two categories: ***banker's acceptances** and **trade acceptances**. **3.** Agreement to accept the terms of an offer; for example, the agreement of an insurance company to provide a specified insurance cover or of a trader to accept a specified parcel of goods at the offer price.

acceptance credit A means of financing the sale of goods, particularly in international trade. It involves a commercial bank or merchant bank extending credit to a foreign importer, whom it deems creditworthy. An acceptance credit is opened against which the exporter can draw a ***bill of exchange**. Once accepted by the bank, the bill can be discounted on the ***money market** or allowed to run to maturity. In return for this service the exporter pays the bank a fee known as an **acceptance commission**.

acceptance supra protest (acceptance for honour) The acceptance or payment of a ***bill of exchange**, after it has been dishonoured, by a person wishing to save the honour of the drawer or an endorser of the bill.

accepting house An institution specializing in accepting or guaranteeing ***bills of exchange**. A service fee is charged for guaranteeing payment, enabling the bill to be discounted at preferential rates on the ***money market**. The decline in the use of bills of exchange has forced the accepting houses to widen their financial activities, many of whom have returned to their original role as ***merchant banks**.

Accepting Houses Committee A committee representing the main ***accepting houses** in the City of London. Members of the committee are eligible for finer discounts on bills bought by the Bank of England, although this privilege has been extended to other banks.

acceptor The drawee of a ***bill of exchange** after acceptance of the bill, i.e. the acceptor has accepted liability by signing the face of the bill.

accommodation bill A ***bill of exchange** signed by a person (the accommodation party) who acts as a guarantor. The accommodation party is liable for the bill should the ***acceptor** fail to pay at maturity. Accommodation bills are sometimes known as **windbills** or **windmills**. *See also* ΚΙΤΕ.

accommodation endorser A person or a bank that endorses a loan to another party; for example, a parent company may endorse a bank loan to a subsidiary. The endorser becomes a guarantor and is secondarily liable in case of default. Banks may endorse other banks' acceptance notes, which can then be traded on the secondary market.

account **1.** A statement of indebtedness from one person to another; an invoice. A provider of professional services or of goods may render an account to a client or customer. A solicitor selling a house on a person's behalf will render an account of the sale, which may show that the solicitor owes the seller the proceeds of the sale,

less expenses. **2.** A named segment of a ledger recording transactions relevant to the person or the matter named. Accounts consist of two sides; increases are recorded on one side and decreases on the other. These entries are often referred to as **debit** and **credit** entries. Accounts may be kept in a written form in a ledger, they may be on loose cards, or they may be held in a computer. **3.** An account maintained by a *bank or a *building society in which a depositor's money is kept. *See* CHEQUE ACCOUNT; CURRENT ACCOUNT; DEPOSIT ACCOUNT. **4.** Formerly, a period during which dealings on the London Stock Exchange were made without immediate cash settlement. Up to the end of each account, transactions were recorded but no money changed hands. Settlement of all transactions made within an account was made ten days after the account ended. This practice changed in 1996 when the account system was abandoned. **5.** In an advertising, marketing, or public-relations agency, a client of the agency from whom a commission or fee is derived, in return for the services. **6.** *See* ANNUAL ACCOUNTS.

accountability An obligation to give an account. For limited companies, it is assumed that the directors of the company are accountable to the shareholders and that this responsibility is discharged, in part, by the directors providing an annual report and accounts (*see* ANNUAL ACCOUNTS). In an accountability relationship there will be at least one principal and at least one agent. This forms the basis of an *agency relationship.

accountant A person who has passed the accountancy examinations of one of the recognized accountancy bodies and completed the required work experience. Each of the bodies varies in the way they train their students and the type of work expected to be undertaken. For example, accountants who are members of the Chartered Institute of Public Finance and Accountancy generally work in local authorities, the National Health Service, or other similar public bodies, while members of the Chartered Institute of Management Accountants work in industry (*see* MANAGEMENT ACCOUNTING). Wherever accountants work, their responsibilities centre on the collating, recording, and communicating of financial information and the preparation of analyses for decision-making purposes. *See also* CHARTERED ACCOUNTANT.

account day (settlement day) Formerly, the day on which all transactions made during the previous *account on the London Stock Exchange were settled. Since the account system was abandoned in 1996, transactions have to be settled within a few days.

accounting concepts (accounting principles; fundamental accounting concepts) The basic theoretical ideas devised to support the activity of accounting. As accounting developed largely from a practical base, it has been argued that it lacks a theoretical framework. Accountants have therefore tried to develop such a framework; although various concepts have been suggested, few have found universal agreement. However, four are often deemed to be fundamental:

- the *going-concern concept assumes that the business is a going concern until there is evidence to the contrary, so that assets are not stated at their break-up value;
- the *accruals concept involves recording income and expenses as they accrue, as distinct from when they are received or paid;
- the *consistency concept demands that accounts be prepared on a basis that clearly allows comparability from one period to another;
- the *prudence concept calls for accounts to be prepared on a conservative basis,

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not taking credit for profits or income before they are realized but making provision for losses when they are foreseen.

These four principles were laid down in *Statement of Standard Accounting Practice (SSAP) 2, Disclosure of Accounting Policies; they are also recognized in the EU's *Fourth Accounting Directive and the UK Companies Acts together with a fifth principle, the *accounting entity concept. SSAP 2 has now been superseded by *Financial Reporting Standard (FRS) 18, which was issued in December 2000: this states that the consistency concept and the prudence concept should no longer be regarded as fundamental. FRS 18 also identifies four key objectives of financial information that can be regarded as fundamental principles: *comparability, *relevance, *reliability, and *understandability.

accounting entity (reporting entity) The unit for which accounting records are maintained and for which *financial statements are prepared. The **accounting entity concept** (or **entity concept** or **separate entity concept**) is the principle that financial records are prepared for a distinct unit or entity regarded as separate from the individuals that own it. This will often be an incorporated *company, whose treatment as a separate accounting entity is required by law. For sole traders and partnerships accounts are also prepared to reflect the transactions of the business as an accounting entity, not those of the owner(s) of the business.

accounting package See BUSINESS SOFTWARE PACKAGE.

accounting period 1. The period for which a business prepares its accounts. Internally, management accounts are usually produced either monthly or quarterly. Externally, *financial statements are produced for a period of 12 months (interim accounts are often produced for the first six months), although this may vary when a business is set up or ceases or if it changes its accounting year end.

2. (chargeable account period) A period in respect of which a *corporation tax assessment is raised. It cannot be more than 12 months in length. An accounting period starts when a company begins to trade or immediately after a previous accounting period ends. An accounting period ends at the earliest of:

- 12 months after the start date,
- at the end of the company's period of account,
- the start of a winding-up,
- on ceasing to be UK resident.

accounting principles See ACCOUNTING CONCEPTS.

accounting rate of return (ARR) An accounting ratio that expresses the profit of an organization before interest and taxation, usually for a year, as a percentage of the capital employed at the end of the period. Variants of the measure include using profit after interest and taxation, equity capital employed, and the average of opening and closing capital employed for the period. A variation of this measure can be used to forecast return on an investment project although *discounted cash flow measures are acknowledged to be superior for this purpose.

accounting ratio (financial ratio) A ratio calculated from two or more figures taken from the *financial statements of a company in order to provide an indication of the financial performance and position of that company. Ratios may be expressed as a percentage (e.g. *return on capital employed) or as a multiple (e.g. *rate of turnover). See FINANCIAL-STATEMENT ANALYSIS; RATIO ANALYSIS.

accounting reference date (ARD) The date at the end of an **accounting reference period**, i.e. the financial year for a company, as notified to the *Registrar

of Companies. For companies incorporated after 1 April 1990, it is normally taken as the last day of the month in which the anniversary of incorporation falls.

Accounting Standards Board (ASB) The recognized body for setting accounting standards in the UK. It was established in 1990 to replace the Accounting Standards Committee (ASC) following the recommendations contained in the *Dearing Report. Under the Companies Acts, companies (except *small companies and *medium-sized companies) must state whether their accounts have been prepared in accordance with the relevant accounting standards and give details and reasons for any material departures from those standards. The ASB issues Financial Reporting Exposure Drafts (FREDs), *Financial Reporting Standards (FRS), and through its offshoot, the Urgent Issues Task Force, reports known as Abstracts. The ASB is a subsidiary of the *Financial Reporting Council.

 **SEE WEB LINKS**

- Website of the ASB: includes a list of standards in issue

account payee only Words printed between two vertical lines in the centre of a UK cheque that, in accordance with the Cheque Act 1992, make the cheque non-transferable. This is to avoid cheques being endorsed and paid into an account other than that of the payee, although it should be noted that banks may argue in some circumstances that they acted in good faith and without negligence if an endorsed cheque is honoured by the bank. In spite of this most cheques are now overprinted 'account payee only' or 'A/C payee' and the words 'not negotiable' are sometimes added.

account reconciliation **1.** A procedure for confirming that the balance in a chequebook matches the corresponding *bank statement. This is normally done by preparing a *bank reconciliation statement. **2.** A procedure for confirming the reliability of a company's accounting records by regularly comparing balances of transactions. An account reconciliation may be prepared on a daily, monthly, or annual basis.

accounts **1.** The *profit and loss account, *balance sheet, and *cash-flow statements of a company. *See* FINANCIAL STATEMENTS. **2.** *See* ACCOUNT.

Accounts Modernization Directive An EU directive (2003) that requires companies to publish information that provides a 'balanced and comprehensive' analysis of their development and performance during the financial year. This should include not only key financial performance indicators but also, where appropriate, non-financial indicators. The directive, which is binding on publicly listed companies for financial years beginning on or after 1 January 2005, has necessitated changes to the UK regulations on the *directors' report.

accounts payable (trade creditors) The amounts owed by a business to suppliers (e.g. for raw materials). Accounts payable are classed as *current liabilities on the balance sheet, but distinguished from *accruals and other non-trade creditors (such as HM Revenue).

accounts receivable (trade debtors) The amounts owing to a business from customers for invoiced amounts. Accounts receivable are classed as *current assets on the balance sheet, but distinguished from prepayments and other non-trade debtors. A provision for bad debts is often shown against the accounts receivable balance in line with the *prudence concept. This provision is based on the company's past history of bad debts and its current expectations. A general

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provision is often based on a percentage of the total credit sales, for example 2% of credit sales made during the period.

accreting cap An interest-rate *cap on an increasing principal.

accreting swap A *swap in which the principal increases over time.

accrual (accrued charge) An amount incurred as a charge in a given accounting period but not paid by the end of that period, e.g. the last quarter's electricity charge. *See* ACCRUALS CONCEPT.

accruals concept One of the four fundamental *accounting concepts laid down in *Statement of Standard Accounting Practice (SSAP) 2, Disclosure of Accounting Policies; it is also recognized in the Companies Acts and the EU's *Fourth Accounting Directive. It requires that revenue and costs are recognized as they are earned or incurred, not as money is received or paid. Income and expenses should be matched with one another, as far as their relationship can be established or justifiably assumed, and dealt with in the *profit and loss account of the period to which they relate. *Accruals and *prepayments are examples of the application of the accruals concept in practice. For example, if a rates bill for both a current and future period is paid, that part relating to the future period is carried forward as a current asset (a prepayment) until it can be matched to the future periods.

The importance of the accruals concept was reaffirmed in *Financial Reporting Standard 18, which has now superseded SSAP 2.

accrued benefits Benefits due under a *defined-benefit pension scheme in respect of service up to a given time. Accrued benefits may be calculated in relation to current earnings or protected final earnings. *Statement of Standard Accounting Practice 24 and *Financial Reporting Standard 17, Retirement Benefits, contain regulations on accounting for pension costs in financial accounts. From January 2005 listed companies have to comply with *International Accounting Standard 19, Employee Benefits.

accrued income scheme An arrangement that applies in the UK to the disposal of interest-bearing securities. The purpose of the scheme is to prevent the avoidance of an income tax liability on *accrued interest. The interest accrued between the date of the last interest payment and the date of disposal is regarded, for tax purposes, as the income of the transferor. The transferee is able to deduct this sum from taxable income. The scheme does not apply to non-residents or if the transfer is part of a trade. Exemption also applies to individuals (husband and wife being regarded as one) if the total nominal value of the securities held does not exceed a certain amount.

accrued interest The amount of interest earned by a bond or other security since the last interest payment, but not yet received. *See* ACCRUED INCOME SCHEME.

accumulated depreciation (aggregate depreciation) The total amount of the *depreciation written off the cost price or valuation of a *fixed asset since it was brought into the balance sheet of an organization.

accumulated dividend A dividend that has not been paid to a holder of *cumulative preference shares and is carried forward (i.e. accumulated) to the next accounting period. It represents a liability to the company. The Companies Act requires that where any fixed cumulative payments on a company's shares are in arrears, both the amount of the arrears and the period(s) in arrears must be disclosed for each class of shares.

accumulated profits The amount showing in the *appropriation of profits account that can be carried forward to the next year's accounts, i.e. after paying dividends, taxes, and putting some to reserve.

accumulating shares Ordinary shares issued to holders of ordinary shares in a company, instead of a dividend. Accumulating shares are a way of replacing annual income with capital growth; they avoid income tax but not capital gains tax. Usually tax is deducted by the company from the declared dividend, in the usual way, and the net dividend is then used to buy additional ordinary shares for the shareholder.

accumulation The gradual purchase of a large number of shares or other securities, so as to increase an investor's holding without driving up the share price.

accumulation and maintenance trust *See* DISCRETIONARY TRUST.

accumulation area In *chartist analysis, a range in the price of a security that tends to attract buyers.

accumulation unit A unit in a *unit trust or an *investment trust in which dividends are ploughed back into the trust, after deducting income tax, enabling the value of the unit to increase. It is usually linked to a life-assurance policy.

acid-test ratio *See* LIQUID RATIO.

ACII Abbreviation for Associate of the *Chartered Insurance Institute.

acquisition **1.** The purchase of an asset. **2.** The process of taking a controlling interest in a business (*see* MERGER).

acquisition accounting The accounting procedures followed when one company is taken over by another. The *fair value of the purchase consideration should, for the purpose of consolidated financial statements, be allocated between the underlying net tangible and intangible assets, other than *goodwill, on the basis of the fair value to the acquiring company. Any difference between the fair value of the consideration and the aggregate of the fair values of the separable net assets (including identifiable intangibles, such as patents, licences, and trademarks) will represent goodwill. The results of the acquired company should be brought into the *consolidated profit and loss account from the date of acquisition only.

Acquisition accounting and *merger accounting are covered by *Financial Reporting Standard 6, Acquisitions and Mergers, and Financial Reporting Standard 7, Fair Values in Acquisition Accounting. The relevant *International Accounting Standard is IAS 22, Business Combinations.

across-the-board movement A movement in all sectors of a market, as when the shares of all companies listed on the stock market rise or fall in price.

ACT **1.** Abbreviation for *advance corporation tax. **2.** Abbreviation for *Association of Corporate Treasurers.

active management A method of portfolio management in which individual investments are selected with an eye to earning *abnormal returns. The general academic view is that this approach runs counter to the *efficient markets hypothesis and is therefore unlikely to be successful. The strategies of *diversification and following a market index are thought more likely to provide greater returns. *Compare* PASSIVE MANAGEMENT.

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active partner A partner who has contributed to the business capital of a partnership and who participates in its management. All partners are deemed to be active partners unless otherwise agreed. *Compare* SLEEPING PARTNER.

active stocks The stocks and shares that have been actively traded.

active underwriter A managing agent in *Lloyd's who underwrites on behalf of a syndicate. *See* UNDERWRITER.

activity-based costing (ABC method) A system of costing proposed by Professors Johnson and Kaplan in their book *Relevance Lost: The Rise and Fall of Management Accounting* (1987), in which they questioned accounting techniques based on *absorption costing. Their method recognizes that costs are incurred by each activity that takes place within an organization and that products (or customers) should bear costs according to the activities they use. Adherents of activity-based costing maintain that it provides accurate cause-and-effect allocations of costs that cannot be obtained from *traditional costing systems.

actuals (physicals) **1.** Commodities that can be purchased and used, as opposed to goods traded on a *futures contract. **2.** In futures contracts or forward dealing, the commodity underlying a contract. **3.** Expenses or receipts that have actually occurred, as opposed to targets, budgets, or other projections.

actuarial surplus The surplus that arises as a result of *overfunding.

actuary A professional trained in the application of mathematics and statistics to issues relating to general insurance and *life assurance. Some are employed by insurance companies to calculate probable lengths of life and advise insurers on the amounts that should be put aside to pay claims and the amount of premium to be charged for each type of risk. They advise on the pricing of insurance contracts and also on the administration of pension funds. *See also* INSTITUTE OF ACTUARIES.

adaptive expectations In macroeconomic theory, the hypothesis that economic agents form forecasts or expectations of the future values of certain economic variables by adjusting past values of the variable. This may lead agents to make systematic forecasting errors. In modern economic thought the theory of adaptive expectations has been largely superseded by that of *rational expectations.

adaptive exponential smoothing A quantitative forecasting method in which averages derived from historical data are smoothed by a coefficient, which is allowed to fluctuate with time in relation to changes in demand pattern. The larger the coefficient, the greater the smoothing effect.

added value *See* VALUE ADDED.

additional paid-in capital In the USA, the excess received from stockholders over the *par value of the stock issued.

additional voluntary contributions (AVCs) Extra contributions made by employees either into an employers' pension scheme or into a scheme of their own choice (free-standing AVCs) in order to increase benefits available on retirement. In the UK, AVCs are subject to tax concessions.

adjudication **1.** The judgment or decision of a court, especially in bankruptcy proceedings. **2.** An assessment by HM Revenue and Customs of the amount of *stamp duty due on a document. A document sent for adjudication will either be stamped as having no duty to pay or the taxpayer will be advised how much is due.

An appeal may be made to the High Court if the taxpayer disagrees with the adjudication.

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adjustable peg *See* CRAWLING PEG.

adjustable-rate mortgage (ARM) A *mortgage in which the interest rate is adjusted at periodic intervals, usually to reflect the prevailing rate of interest in the *money markets. Borrowers are sometimes protected by a *cap, or ceiling, above which the interest rate is not allowed to rise.

adjustable-rate preferred stock (ARP) Stock or cumulative preference shares in the USA whose dividends are linked to Treasury Bill interest rates. Minimum and maximum rates are specified by the application of a *collar. **Convertible adjusted-rate preferred stock** can be converted to common stock at a fixed price at specified dates.

adjusted present value A calculation of the *all-equity net present value of an investment or project that is then adjusted to allow for any other impacts, for example any tax concessions on financing. *See also* NET PRESENT VALUE; PRESENT VALUE.

adjusted strike price A new *exercise price (strike price) for an option that arises from an unexpected event, such as a stock dividend or split.

adjusting events Events that occur between a balance-sheet date and the date on which *financial statements are approved, providing additional evidence of conditions existing at the balance-sheet date. Traditional UK accounting practice is set out in *Statement of Standard Accounting Practice 17, Accounting for Post Balance Sheet Events, which requires that such material events should be reflected in the actual account balances in the financial accounts. In 2004 SSAP 17 was replaced by *Financial Reporting Standard 21, Events After the Balance Sheet, which includes a stricter definition of adjusting events. *Compare* NON-ADJUSTING EVENTS.

adjustment bond A *bond issued in exchange for existing bonds when a business in financial difficulties is being restructured.

adjustment credit An advance made by a US Federal Bank to smaller banks to satisfy short-term lending needs. The loans may be made for as short a term as 15 days. Adjustment credits are most often used when interest rates are high and money supply is short.

administration order **1.** An order made in a county court for the administration of the estate of a judgment debtor (*see* JUDGMENT CREDITOR). The order normally requires the debtor to pay the debts by instalments; so long as this is done, the creditors referred to in the order cannot enforce their individual claims by other methods without the leave of the court. Administration orders are issued when the debtor has multiple debts but it is thought that *bankruptcy can be avoided. **2.** An order of the court under the Insolvency Act 1986 made in relation to a company in financial difficulties with a view to securing its survival as a going concern or, failing that, to achieving a more favourable realization of its assets than would be possible on a *liquidation. While the order is in force, the affairs of the company are managed by an *administrator and the firm is protected from legal action by the creditors to wind up the business. Since 2003 a form of **out-of-court administration** has also been possible. Under this procedure a company, its

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directors, or the holder of a *floating charge can appoint an administrator with a view to achieving the same purposes as an administrator appointed by a court.

administrative receiver A *receiver appointed by the holder of a *floating charge covering the whole, or substantially all, of a company's assets. The administrative receiver has the power to sell the assets that are secured by the charge or to carry on the company's business. Subject to certain exceptions, an administrative receiver cannot be appointed by the holder of a floating charge created after 15 September 2003; it is now possible, however, for the holder of such a charge to appoint an *administrator without obtaining a court order.

administrator **1.** Any person appointed by the courts to take charge of the affairs of a deceased person, who died without making a will. This includes collection of assets, payment of debts, and distribution of the surplus to those persons entitled to inherit, according to the laws of *intestacy. The administrator must be in possession of *letters of administration as proof of the authority vested by the courts. **2.** Any person appointed by the courts to implement an *administration order or undertake the duty of an *administrative receiver, or appointed to carry out an out-of-court administration of the affairs of a person or a company. Debt administration is now recognized as an *ancillary credit business.

ADR Abbreviation for *American depositary receipt.

ad valorem (Latin: according to value) Denoting a tax or commission calculated as a percentage of the total invoice value of goods or services rather than the number of items. For example, *value added tax is an ad valorem tax, calculated by adding a fixed percentage to an invoice value.

advance corporation tax (ACT) Formerly, an advance payment of *corporation tax payable when a company made a *qualifying distribution. The requirement for such payments was abolished in 1999, although rules exist to permit the recovery of payments prior to this date. Larger companies must now pay corporation tax in instalments.

advance–decline ratio The ratio of the number of companies whose share prices have risen to the number whose prices have fallen on a stock exchange over a given period, often a single day. A fall in the ratio can be interpreted as an impending overall fall in prices. Its value is a measure of *market sentiment, positive being bullish, and negative being bearish.

adventure A commercial undertaking of a speculative nature, often associated with overseas trading.

adverse balance A deficit on an account, especially a *balance of payments account.

adverse opinion An opinion expressed in an *auditors' report to the effect that the financial statements do not give a *true and fair view of the organization's activities. This situation usually arises when there is a disagreement between the auditor and the directors, and the auditor considers the effect of the disagreement so material or pervasive that the financial statements are seriously misleading. *See* AUDIT OPINION; QUALIFIED AUDIT REPORT.

adverse selection In the market for insurance products and loans, the tendency for the most risky customers to be the most likely to demand products that exempt them from disclosing their status. To reduce their exposure to large claims on this