Glossary of key terms

Cadbury Committee Report of the Cadbury Committee (December 1992) on the Financial Aspects of Corporate Governance, set up to consider issues in relation to financial reporting and accountability, and to make recommendations on good practice, relating to:

- responsibilities of executive and non-executive directors
- establishment of company audit committees
- responsibility of auditors
- links between shareholders, directors, and auditors
- any other relevant matters.

The report established a Code of Best Practice, now succeeded by the Combined Code of Practice.

contingent liability A possible obligation that arises from past events and whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the entity's control; or

A present obligation that arises from past events but is not recognised because: it is not probable that a transfer of benefits will be required to settle the obligation; or, the amount of the obligation cannot be measured with sufficient reliability (FRS12).

continuing operations Operations not satisfying all the conditions relating to discontinued operations (see below).

corporate governance The system by which companies are directed and controlled. Boards of directors are responsible for the governance of their companies. The shareholders' role in governance is to appoint the directors and the auditors and to satisfy themselves that an appropriate governance structure is in place.

discontinued operations Operations of the reporting entity that are sold or terminated and that satisfy certain criteria (FRS 3):

- the sale or termination is completed either in the period or before the earlier of three months after the commencement of the subsequent period and the date on which the financial statements are approved
- if a termination, the former activities have ceased permanently
- the sale or termination has a material effect on the nature and focus of the reporting entity's operations, and represents a material reduction in its operating facilities resulting from its withdrawal from a particular market (whether class of business or geographical) or from a material reduction in turnover in the reporting entity's continuing markets
- the assets, liabilities, results of operations and activities are clearly distinguishable physically, operationally and for financial reporting purposes.

environmental reporting A statement included within the annual report and accounts that sets out the environmental policies of the company and an explanation of its environmental management systems and responsibilities. The environmental report may include reporting on the performance of the business on environmental matters in qualitative terms regarding the extent to which it meets national and international standards. It may also include a quantitative report on the performance of the business on environmental matters against targets, together with an assessment of the financial impact.

euro The common currency of the European Union, which came into being on 1 January 1999. Financial transactions and/or financial reporting of member states may now be undertaken in either the functional domestic currencies, or in euros.

financial instrument Any contract that gives rise to both a financial asset of one entity and a financial liability or equity instrument of another entity. Financial instruments include both primary financial instruments – such as bonds, debtors, creditors and shares – and derivative financial instruments whose value derives from the underlying assets.

inflation A general increase in the price level over time. In a period of hyper inflation the rate at which the price level rises has become extremely high, and possibly out of control.

post balance sheet events Favourable and unfavourable events, which occur between the balance sheet date and the date on which the financial statements are approved by the board of directors.

risk A condition in which there exists a quantifiable dispersion in the possible outcomes from any activity. For example: credit risk – the risk that a borrower may default on his obligations; currency risk – the possibility of loss or gain due to future changes in exchange rates.

risk management The process of understanding and managing the risks that the organisation is inevitably subject to in attempting to achieve its corporate objectives. For management purposes, risks are usually divided into categories such as operational; financial; legal compliance; information; personnel.

segmental reporting The inclusion in a company's report and accounts of analysis of turnover, profits and net assets by class of business and by geographical segments (Companies Acts 1985/89 and SSAP 25).

value added statement An alternative presentation of the traditional profit and loss account that measures the wealth created by a company through its activities, through value added by the business rather the profit earned by the business. It shows how value added is distributed among the relevant parties: employees; lenders; shareholders; Government, and the amount to provide maintenance and expansion of the business.