GLOSSARY *of* FARM BUSINESS MANAGEMENT T • E • R • M • S

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Foreword

Understanding and using farm business management terms with the most acceptable and appropriate meaning is important to farm managers, their counsellors, advisors and business associates. This glossary provides definitions of more than seven hundred farm business terms that are used for Alberta farm business transactions. We attempted to define the terms as they are used or should be used in farm business management communications. Our definitions have no official or legal authority, but we hope they will be used as a standard of acceptability until we have a better reference source.

We want to express our appreciation to many members of the Alberta Agricultural Economics Association who responded to our survey questions in 1987 and contributed to the definitions in this publication. A special thank you is acknowledged to Marilyn Johnson and Ron Gietz of the market analysis branch who provided the definitions for livestock marketing terms. We would also like to thank Saskatchewan Agriculture's economic branch for permission to use the terms found in the insurance section of the glossary.

Although we have included many accounting terms in our glossary, we recommend the use of a more complete reference book. It is called *Terminology for Accountants* and is available from the Canadian Institute of Chartered Accountants.

The definitions of farm business management terms in this publication were evaluated, edited and prepared by Craig Edwards, farm management economist at the farm business management branch of Alberta Agriculture.

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Words

When I use a word,
it means just what I choose it to mean
- neither more nor less.

- Humpty Dumpty in
"Alice in Wonderland"
by Lewis Carroll.

Why shouldn't we quarrel about a word?
What is the good of words if they
aren't important enough to quarrel over?

Why do we choose one word more
than another if there isn't any
difference between them?

G.K. Chesterton.

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General Terms Used in Farm Business Management

Accounting The process of analyzing and systematically recording in terms of money or some other unit of measurement, operations or transactions and of summarizing, reporting and interpreting the results.

Accounting - Cash Method The method of recording transactions by which revenues and expenditures are reflected in the accounts in the period in which the related cash receipts or disbursements occur.

Account - Payable An amount owing to a creditor. Generally used for liabilities for the purchase of goods or services.

Accrual Accounting A method of accounting by which revenue and expenses are recorded when they are earned or acquired regardless of when the cash is received or paid. The accrual method matches expenses to the revenue earned during the accounting period.

Accrued An amount that has accumulated, but has not yet been paid; for example, interest on a savings account accrues or accumulates day-by-day but is not paid until the end of the period. Also, the unpaid income tax owed for the year just ended is an accrued tax liability.

Accrued Interest An accumulation of interest which has been charged or calculated, is not yet due and has not been paid since the last due date. Example: I have borrowed $1,000 and contracted to pay 12 per cent interest per year, payable at one year from the time I borrowed it. At the end of 10 months, the accrued interest will be $\frac{10}{12} \times \frac{12}{100} \times \$1{,}000 = \$100$.

Accumulated Depreciation The total to date of the periodic depreciation charges on fixed assets since they were placed in use.

Adjusted Cost Base Tax base from which capital gains are calculated either as of Jan/1972 or after 1972 purchase cost plus cost of additions.

Aging (Accounts Receivable) The process of analyzing each customer's account to determine how old each unpaid receivable debt is. It is usually used to estimate the amount of debt write-offs.

Amortization A method for repaying loans whereby the borrower makes periodic payments so that the principal will be completely repaid when the loan matures. There are two types of amortization plans: the decreasing-payment plan and the level-payment plan.

Amortized Loan A loan with a repayment schedule of regular amounts, at regular periods of time, so the principal will be completely repaid when the last regular payment is made. There are two types of repayment plans.

Annual Report The information provided annually by the directors or management of an organization such as a company, to the shareholders, owners, or other interested parties concerning the operation and the financial position of the operation. It usually includes the annual financial statements, the auditor's report, and the reports of officers or directors.

Annuity A series of uniform (equal amount) payments made at regular periods of time. Mortgage loan payments for farms, houses, etc. are examples of annuities. The lender is the annuitant, the receiver of the payments. However, if a farmer purchases an annuity for an investment from a financial institution, the farmer is the annuitant, the receiver of the payments.

Appraisal A valuation, especially of the land, buildings, machinery and equipment, made by individuals or firms qualified as expert in such valuations. The valuation may be made on one of several bases, e.g. replacement cost, replacement cost less depreciation, market value.

Appreciation Increase in value over cost or book value. Generally due to external influences such as higher price level, increased demand, etc. rather than higher internal value.

Arm's Length Applied to any transaction where the parties are not related or connected with each other.

Assets Anything of value that a person or business owns.

Audit In regard to financial statements or other financial information, an examination of the accounting records and other supporting evidence of an organization for the purpose of expressing an opinion as to whether such information has been presented fairly in accordance with generally accepted accounting principles.

Audit Trail The route by which the recording of financial data can be traced either forward or backward through the year's records.

Authorized Capital The total amount of capital stock that a corporation is permitted by its charter to use.

Average Cost (AC) The total cost of production divided by the total number of units produced.

Average Physical Product (APP) The total physical product divided by the units of variable input used.

Balance Sheet A financial report that presents a detailed picture of the financial condition of a business on a specified date; a formal statement that shows what individuals (or businesses) own, what they owe and what they are worth. A formal statement of financial position, in the form of a concise statement, showing assets, liabilities and owner's equity at a specific date. It usually portrays book value based on cost and does not necessarily show current net worth.

Balloon Payment A large lump sum payment which either reduces or removes the outstanding principal balance of a loan.

Bank Balance The ending balance in a depositor's account after adding all deposits to the previous balance and subtracting the depositor's cheques and service charges.

Barter, Bartering An exchange of goods and services for other goods or services rather than for cash.

Benefit Cost Analysis The evaluation of the profits, income, output or other benefits anticipated under a project or service against the cost of obtaining them.

Bid An action indicating willingness to buy at a specified price (opposite of offer to sell).

Blended Credit Payments Equal payments of principal and interest on a regular basis to pay off a mortgage or loan over a specified future period. During the period of the mortgage, the principal portion of the payments gradually increases while the interest portion decreases.

Block Budgeting A means of analyzing a total business and comparing the economic consequences of various business plans. Combining enterprise "blocks" or units that contain requirements for land, labor and capital enables one to build alternative plans, which are then compared.

Bond 1. A certificate of indebtedness issued by a government or corporation, usually being one of a larger number of such certificates and 2. An obligation in writing, sometimes supported by collateral, given by an individual or company to another individual or company to pay damages, or to indemnify against losses caused by a third party through non-performance of a contract or other duties, e.g., a builder's performance bond or an employee fidelity bond.

Book Value The undepreciated value of an asset shown in the business's records. It is found by subtracting the accumulated depreciation from the original cost of the asset.

Borrowing Capacity The maximum amount of credit available to an individual or business.

Break-Even Point The level of operations of a business at which revenues equal expenses. It is often expressed as the dollar volume of sales required to cover both fixed and variable expenses.

Break-Up Value Same as liquidation value.

Broker A financial intermediary who acts as an agent in the buying and selling of securities or commodities.

Brokerage Fees The fees or commission charged by a broker as remuneration for his services.

Budget, Budgeting A detailed estimate of the income, expenditures, and future transactions for a future period of time, usually one year, or a systematic estimate or plan for a future fiscal period of a business.

Business Analysis A system of forms, procedures and ratios a farm manager can use to periodically evaluate the performance and financial strength of his business.

Cancelled Cheque Cheques that have been paid by the bank during the month and returned to the depositor with the monthly bank statement.

Capital What an individual or business is worth.

Capital Asset An asset, whether tangible or intangible, intended for long-term use and held as such.

Capital Cost Allowance A deduction, somewhat similar to depreciation, allowed in computing income for income tax purposes. This term is used only for income tax.

Capital Expenditures Payments made to purchase assets that will be used for more than one year.

Capital Gain The amount by which the sale value of an asset exceeds its book value. Capital gains income is sometimes treated differently than ordinary income for tax purposes.

Capitalization The process for determining the present value of a series of payments to be received in the future.

Capital Loss The amount by which the book value of an asset exceeds its sale value. The term has special meaning for income tax.

Capital Turnover The capital turnover ratio is computed by dividing gross income by capital:

$$\frac{\text{Gross Revenue}}{\text{Capital}} = \text{Capital turnover ratio}$$

Capital Receipts Payments received from the sale of capital assets.

Carry-Over Under income tax legislation, the right to apply a current loss against the taxable income of allowable prior periods (carry back) and or against the taxable income of future allowable periods.

Cash Currency on hand or the balance in a deposit account.

Cash Accounting A method of accounting by which revenue and expenses are recorded when cash is received or paid. Farmers were allowed to use the cash method for reporting taxable income.

Cash Balance The amount of cash on hand.

Cash Costs Out-of-pocket expenditures involving the exchange of currency or a cheque for goods and services.

Cash Flows Cash receipts (inflows) or cash expenses (outflows). Examples of cash inflows are proceeds from sales, borrowed money and income from custom work. Examples of cash outflows are payments for fertilizer, principal and interest, and family living expenses.

Cash Flow Statement A financial statement that summarizes the actual sources of cash and uses of cash for a given period of time, a month or a year.

Cash Rent Land rental based on a fixed charge, usually per acre (see Crop Share Lease).

Cash Surrender Value The accumulated savings element at a point in time of a life insurance policy that can be recovered on cashing in the policy or borrowed against at a specified interest rate.

Certified Cheque A cheque payment that is guaranteed by the bank on which it is drawn.

Charter A certified or approved copy of the articles of incorporation that has been properly recorded.

Chattel Mortgage A mortgage on personal property (not fixed permanently to land) that is transportable, such as machinery, equipment, livestock, cars, trucks or any kind of property except real estate. The mortgagor (debtor or borrower) has possession of the property but gives the mortgagee (lender) a legal claim which conveys an interest in the property as security for the debt.

Checking Account A bank account on which cheques (payable on demand) can be drawn.

Cheque Register A book or original entry in which cheques issued are recorded.

Cheque Stub That part of the cheque form that is bound permanently in the chequebook. It is used for immediate recording of each cash payment as well as each deposit.

Common Stock That part of the capital stock that doesn't have special preferences or rights. If a corporation has only one kind of stock, it is known as common stock.

Comparative Statements A form of financial statement presentation in which current amounts and corresponding amounts from previous periods or dates are set out together.

Competitive The production relationship between two products where an increase in the production of one decreases the output of the other.

Complementary The production relationship between two products where an increase in the production of one also increases the output of the other.

Compounding The mathematical process used to find the value of an amount of money at some specified date in the future when its present value is known. The process involves calculating interest on the original principal, adding the interest to the principal, and then charging interest on the new principal (interest + original principal) for the next period. Interest charged for each period is added to the principal before the interest for the next period is computed on the new principal. Farm loans for a longer time than one year are often amortized and payments calculated on the basis of compounding. Investments in annuities also use the compounding method of calculating payments.

Conditional Sales Contract A contract where the buyer gets possession and use of the goods but the seller retains title until all the payments have been paid.

Consignment A shipment of goods made under an agreement whereby the receiver (consignee) undertakes to sell or otherwise dispose of the goods as agent on behalf of the shipper (consignor). The latter retains title to the goods until they are sold or disposed of according to the agreement.

Constant Dollars Dollars of a given base year into which dollars of the year under study are restated for the purpose of eliminating the effect of inflation.

Contingent Income Taxes The estimated amount of income taxes that would be due if assets were liquidated at the market value shown on the balance sheet.

Contract An agreement, intended to give rise to legal obligations, entered into between two or more persons to do or refrain from doing something.

Controller (Comptroller) A title given to an office or service employee of an organization whose responsibilities generally involve the accounting control functions of the organization.

Co-operative An incorporated organization formed for the benefit of its members (owners) who are either producers or consumers in order to acquire for them profits or savings that would otherwise accrue to middlemen. Control is exercised by the members on the basis of one vote per member.

Corporation A legal entity, with or without share capital, separate and distinct from its owners or persons who constituted it, which has all the rights and responsibilities of a person except those rights that only a natural person can exercise.

Cost A charge that should be made for an item used in the production of goods or services. There are cash costs, noncash costs, variable costs, fixed costs and opportunity costs.

Cost Accounting That branch of accounting concerned with the classification, recording, analysis, reporting and interpretation of expenditures identifiable with the production and distribution of goods and services.

Cost/Benefit Analysis The evaluation of the profits, income, output or other benefits anticipated under a project or service against the costs of obtaining them.

Credit 1. The ability to buy or borrow in consideration of a promise to pay at a later date. 2. An entry that is to be recorded on the righthand side of an account (opposite debit).

Credit Reserve Unused borrowing capacity available as a source of liquidity for unforeseen obligations and investment opportunities (see Borrowing Capacity).

Critical Path Method A method of network analysis or project planning in which normal duration time is estimated for each activity within a project. The critical path identifies the shortest completion period based on the most time-consuming sequence of activities from the beginning to the end.

Crop Share Lease A crop-share lease is a lease where landlord and tenant share the crop at an agreed rate. The major advantages for the renter is that he does not bear the entire risk of price and yield fluctuations. The owner shares the good years but also participates in bearing the risk in bad years. Crop share leases come in many forms and many share arrangements.

Current Assets Cash or other assets that are expected to be converted into cash in the normal course of operations or to be consumed in the production of income within one year or within the normal operating cycle where that is longer than one year.

Current Liabilities Liabilities that are to be paid within a relatively short time, usually within a year.

Current Ratio The ratio of current assets to current liabilities, indicating the ability of a business to pay its current liabilities in cash as they become due.

Current Value Accounting A general term designating methods of accounting based on current value rather than historical cost. The valuation bases include for example, reproduction cost, replacement cost, resale price and present value.

Custom Work Farm work performed for a charge involving the use of machinery and labor provided by someone other than the farm operator.

Data Any kind of detailed or factual information.

Data Processing A generic term for the operations carried out in assembling, classifying, recording, analyzing and reporting of information by manual, mechanical or electronic means.

Debit An entry that is to be recorded on the lefthand side of an account. It is a record of an increase in assets and expenses or a record of a decrease in liabilities, owner's equity and revenues.

Debt An obligation to pay in the future.

Debt/Equity Ratio Shows the relationship of owned capital to borrowed capital. The ratio is computed from the equation:

$$\text{Debt/Equity ratio} = \frac{\text{total liabilities}}{\text{net worth}}$$

A debt/equity ratio of .5 shows that the owner is providing twice as much capital as she is borrowing. The ratio is a measure of solvency.

Debt Service The cash required to meet principal and interest payments.

Debt Structure Ratio Is a measure of liquidity of a business, showing the relationship of current liabilities, intermediate liabilities and long term liabilities with total liabilities by making three equations.

Declining Balance Method of Depreciation A method of figuring depreciation by charging a larger portion of depreciation expense to the early years of the useful life of an asset.

Deferral, Deferred Income An amount of income received or recorded but not yet earned.

Deflation The increase in purchasing power of a dollar as evidenced by falling prices and a decrease in the money supply.

Demand Loan A loan repayable at the will of the lender and to which days of grace are not applicable.

Depreciation (management) The observed or projected decrease in market value of fixed assets because of age, use and obsolescence.

Depreciation (accounting) The expense charged periodically as an accounting procedure to allocate or distribute the cost or recorded value of a fixed asset over its estimated useful life. It is a process of allocation, not valuation.

Diminishing Returns A hypothesis stating that if one factor of production is increased by small, constant amounts with other factor quantities being held constant, then after some point the resulting increases in output become smaller and smaller.

Direct Cost A cost of production input specifically used for a specific enterprise, a variable cost.

Disclaimer A written statement usually entitled "Accountant's Comments" or "Disclaimer of Opinion." It usually accompanies financial statements prepared by, or with the assistance of, a public accountant. Disclaimers point out that, since the terms of the engagement did not call for an expression of opinion on the financial statements, he has not performed an audit and consequently, no opinion is expressed.

Disclosure The aspect of financial reporting that is concerned with the proper amount of detailed information to be provided in the financial statements.

Discount A reduction from a list price or a stated amount.

Discounted Cash Flow A method of evaluating return on a proposed investment, which takes into consideration the time value of money.

Discounting The mathematical process used to find the present value of an amount of money today when its value at some future date is known; discounting is the inverse of compounding (see Compounding).

Dividend An amount of earnings declared by the board of directors for distribution to the shareholders of a corporation in proportion to their holdings, having regard for the respective rights of various classes of stock.

Dividend Tax Credit All normal dividends from taxable Canadian corporations receive preferential tax treatment in the hands of the shareholders by way of a dividend tax credit. The shareholder will include in taxable income 150 per cent of the dividend received and will deduct from tax normally paid 25 per cent of the increased dividend, this figure being the dividend tax credit.

Diversification A management strategy of producing a number of different commodities in order to use resources more efficiently or to reduce risk.

Double-Entry Bookkeeping The system of bookkeeping in which every transaction is recorded both in one or more accounts as a debit and in one or more as a credit in such a manner that the total of the debit entries equals the total of the credit entries.

Down Payment A part payment of the purchase price made at the time a contract is entered into.

Drawings Withdrawals of assets (usually cash or merchandise) from a business by a sole proprietor or partner.

Earned Financial Progress An increase in value of equity in the farm business, earned by operating profits and not from an increase in value of assets.

Earnings Term used to mean income or profit.

Easement An incorporal and usually non-profitable interest granted by deed or created by will, deed or prescription that is held by one person in land owned by another and that entitles its holder to a specific limited use or enjoyment (for example, the right for an oil company to cross the land by pipeline).

Economics The study of how people, individually and in groups, allocate scarce resources among competing uses to maximize satisfaction over time.

Economic Life The period during which a fixed asset can efficiently be kept in use.

Economics of Scale It exists when expansion of the scale of production capacity of a firm or industry causes total production costs to increase less than proportionally with output; the situation where the total cost per unit of output decreases as a result of increases in the size of the business.

Efficiency A ratio of output to input. Economic efficiency refers to the ratio of the value of output to the cost of input. Production efficiency refers to the ratio of physical output to physical input.

Endorsement The signature or stamp of the depositor on a negotiable instrument or cheque that transfers the ownership of the instrument or cheque to a bank or another party.

Enterprise Enterprise is defined as any segment of the farm business that can be readily isolated by accounting procedures or separated from others according to its revenues and expenses. We usually classify enterprises into Production, Service, and Holding Enterprises.

Enterprise Accounting A record keeping procedure that determines the detailed revenue and expenses for each enterprise.

Enterprise Analysis Enterprise analysis is chiefly used to indicate strong or weak areas in the farm business.

Enterprise Budget A detailed list of all estimated revenue and expenses associated with a specific enterprise.

Equi-Marginal Principle and Profit Maximization If a scarce resource is to be distributed among two or more uses, the highest total return is obtained when the return per unit of the resource is equal in all alternative uses.

Equity Ratio The relationship between the net worth of the owners and the amount owed to creditors.

Escalator Clause A clause inserted in a purchase or rental contract that permits, under specified conditions, upward adjustments of price or allowances.

Escrow An agreement whereby a deed, money or other property is deposited with a trustee to be held until certain conditions are fulfilled.

Estate Planning The arrangement of an individual's affairs for the purpose of facilitating the passage of his assets to the beneficiaries of his estate, taking into account all of the allowances and benefits that tax and estate laws provide.

Executor A person appointed by a testator to give effect to his will after his death.

Expenditure A disbursement of cash, a liability incurred or the transfer of property for the purpose of obtaining goods or services.

Expense A cost properly identifiable with the operation during a certain period or with revenues earned during that period.

Face Value The nominal amount due at maturity from a bond or note.

Factor of Production An input or resource used in production, such as seed, fertilizer, labor and land.

Fair Market Value The price that would be agreed to in an open and unrestricted market between knowledgeable and willing parties dealing at arm's length who are fully informed and not under any compulsion to transact.

Family Farm A farm business that provides the family's principle source of income and is managed by the family.

Farm Business Management The field of study concerned with the decisions that affect the profitability of the farm business.

Feasibility Study An investigation of the advantages and disadvantages of a course of action, e.g. advantages and disadvantages of using computer or data processing equipment instead of manual methods, or of using an alternative type of equipment over present equipment.

Financial Accounting The accounting for assets, equities, revenues and expenses and interpretation of the overall financial position and operating results of an organization.

Financial Ratio (see Ratio Analysis) Current - Working - Net Capital Ratio

Financial Statements 1. A balance sheet, income statement, statement of retained earnings, statement of changes in financial position or any other formal accounting report. 2. A report comprising several accounting statements such as those in 1.

Financing Acquiring control of assets by borrowing money.

Fiscal Year A period of approximately one year for which financial statements are regularly prepared. A fiscal year may consist of:
(a) twelve consecutive months or
(b) 52 consecutive weeks with one extra day added to the last week or
(c) 52 or 53 consecutive weeks

Fixed Assets A tangible long-term asset, such as land, buildings or equipment, held for use rather than for sale.

Fixed Costs 1. An indirect cost that remains relatively unchanged in total regardless of the volume of production or activity within a fairly wide range of volume. 2. The cost associated with owning a fixed input or resource even if the input or resource is not used. For example, if a farmer bought a new tower silo and then decided to not feed cattle from it nor use it in any way, his wealth would be reduced year by year by the annual fixed costs. These are depreciation, insurance, repairs, taxes and interest, called the "DIRTI 5". They don't change in the short run, even if the silo is not used and can be avoided only by selling the silo, in the long run. Fixed costs are considered to be fixed in the short run. In the long run all costs are variable because assets can be sold or exchanged.

Flexibility A management strategy of maintaining the ability to make adjustments in the operation of the business in response to changing conditions in order to reduce risk.

Flow Chart A graphic presentation of the movement in operational sequence of goods, documents or work flow, especially related to the operations of an organization.

Foreclosure The legal action by a lender against the borrower and property-owner for breach of mortgage covenants on a property. Such action usually results from substantial arrears in mortgage payments and is usually a last resort.

Foreign Exchange 1. A transaction involving the exchange of currency of one country for currency of another country. 2. The currency of another country.

Franchise A contractual privilege, often exclusive, granted by one person to another permitting the sale of a product, use of a trade name or provision of a service within a specified territory and/or in a specified manner.

Future Value The amount to which a present sum of money will grow if deposited where interest is paid for one or more interest paying periods. The future value will be the sum of the original principal deposited plus the accumulated or compounded interest. The sum is also called the compound amount.

Goal A target or desired condition that motivates the decision maker.

Going Concern Concept The view that a business will continue an operation indefinitely. This concept is of special significance in the valuation of fixed and intangible assets for accounting purposes.

Goodwill An intangible asset of a business when the business has value in excess of the sum of its net identifiable assets. Goodwill has a variety of definitions, some relating to the nature of the asset, others to its value. As to its nature, it has been said to fall into the three classes of commercial, industrial and financial good will, which are the consequence of favorable attitudes on the part of customers, employees and creditors, respectively. As to its value, the most common explanations emphasize the present value of the expected future earnings in excess of the return required to induce investment.

Gross Income Total taxable income.

Gross Margin The difference between the revenue and the variable production cost for one unit (one acre or one animal) of an enterprise.

Historical Cost The total expenditures made by the owner to acquire title to an asset.

Holdback A portion of the progress payments called for under the terms of a contract that is not payable until the contract has been completed and the contractor has fulfilled his own financial obligations to subcontractors.

Holding Company A corporation whose principal business is owning a controlling interest in the shares of one or more other corporations.

Holding Gains Increases in the value of assets or decreases in the value of liabilities occurring over a period of time and not resulting from action of the owner.

Horizontal Integration The extension of activity by an organization in the same general line of business or expansion into supplementary, complementary or compatible products.

Implicit Cost Implicit costs represent items such as unpaid family labor, interest on owners' equity and depreciation.

Income 1. The excess of revenues over expenses for a period, usually referred to as "net income". Gross income refers to total revenue. 2. Revenue derived from investments and from incidental sources. 3. Revenue of an individual such as salary, interest, rent, etc.

Income and Expense Summary The account to which the balances of all income and expense accounts are transferred at the end of each fiscal period.

Income Statement A financial statement that summarizes all revenues and expenses to determine the net profit or loss for a given period of time, usually a year.

Income Stimulating Cost Costs that tend to generate more income than they cost, such as application of fertilizer and herbicide.

Incorporation The legal process of bringing a corporation into existence.

Indirect Cost Fixed costs and variable costs that are shared between enterprises.

Inflation The deterioration in the purchasing power of the dollar, as shown by rising prices and an increasing money supply.

Input A factor or resource used in production, such as seed, fertilizer, labor and land.

Insurance A contract under which one party (the insurer), in return for consideration (a premium), agrees to indemnify the other party (the insured) in the event of specified damage, loss or liability arising from the occurrence of certain events.

Intangibles An asset of an intangible nature that benefits the business for several periods; an asset of an immaterial, non-physical nature that adds value to the business only as a going concern.

Interest The amount paid for the use of money.

Intermediate Assets Assets that support production for one to ten years and are not easily converted to cash without affecting the operation of the business.

Intermediate Liabilities Liabilities due after one year but within ten years of the date of the balance sheet.

Inventory 1. An itemized list of goods; the annual or other periodic account of stock taken in a business; the articles that are inventoried. 2. An itemized listing of commodities held for sale, commodities in the process of production, and inputs to be used in production; for example, feed, seed, farm supplies, animals to be sold within the year, crop production in storage, and growing crops.

Investment An expenditure to acquire property that yields, or is expected to yield, revenue or service; the property so acquired; the process of adding assets to a business.

Invoice A document prepared by the seller setting out the details of goods sold or services rendered to the purchaser including quantity, price, terms of payment, etc.

Joint Venture A business undertaking entered into by two or more parties, which terminates upon completion of the specified project.

Journal Any book of original entry, including the specialized journals such as the sales journal and cash journal, in addition to the general journal.

Land The portion of the earth's surface over which ownership rights may be exercised.

Land Contract An arrangement for financing the purchase of real estate where the buyer gets the use of the property and the seller agrees to deliver the title when the agreed principal and interest payments have been made. This is also called an agreement for sale.

Lease The granting of the right to use an asset by one person (the lessor) to another (the lessee) for a specified period of time in return for rent.

Least-Cost Combination The least-cost principle states when two or more inputs can be combined in varying amounts to produce a given output, it is economical to substitute input A for input B if the cost of A is less than the cost of B.

Ledger A book of final entry, either containing all the accounts including control accounts (general ledger) or containing all the accounts of a particular type or nature (subsidiary ledger).

Leverage The relationship between the total liabilities and the net worth of a business. The higher the ratio of debt to net worth, the greater is the leverage.

Leveraging A strategy of acquiring assets with a large proportion of borrowed funds.

Liability In general, a debt owed. In accounting, the money value of an enforceable obligation that may be included as a credit balance in accordance with generally accepted accounting principles.

Lien The right given by law or contract to a person to have a debt or duty satisfied out of the property belonging to the person owing the debt or duty.

Limited Company A corporation with share capital in which the liability of shareholders for debts of the corporation is limited to the amount of the capital for which they have subscribed.

Limited Partnership A partnership consisting of at least one general partner, who is responsible for the management and liabilities of the business, and at least one limited partner, whose liability is limited to his or her investment.

Linear Programming A mathematical technique used to find profit maximizing combinations of production activities or cost minimizing combinations of ingredients subject to a number of linear relationships that constrain the activities or ingredients.

Line of Credit A declaration of intent whereby a lender or supplier states that, until further notice, it is prepared to extend credit up to a stated maximum amount, on certain terms and conditions to a borrower or customer.

Liquidate To convert to cash; to sell.

Liquidation 1. The payment of a debt. 2. The conversion of assets into cash. 3. The winding-up of the affairs of an organization by settling with its debtors and creditors and distributing any remaining assets to its owner and such other persons as designated in its charter or constitution.

Liquidation Value The price that an asset might be expected to realize on a forced sale or on the winding-up of a business.

Liquidator A person appointed to conduct the winding-up of the affairs of an organization.

Liquidity The ability of a business to generate sufficient cash to meet its financial obligations when they come due; the ease with which assets can be converted to cash.

List price The price as set in a catalogue, register, etc. subject to trade and cash discounts.

Livestock Inventory Provision Farmers who have livestock may add to their current year's income any amount up to the fair market value of the livestock for income tax purposes. However, the amount added to income in one year must be deducted from the income of the following year.

Long Position The condition of a purchaser who is entitled to delivery of securities or commodities from a broker; such purchaser is said to be "long" in those securities or commodities in the broker's account.

Long-Term Liabilities Mortgages, land contracts, and other liabilties that will mature (be completely repaid) more than ten years from the date of the balance sheet.

Loss 1. The excess of expenses over revenues for a period. 2. A cost incurred without return or benefit.

Management 1. The act of planning, directing and controlling the activities of an organization or project to enable it to reach its goals. 2. The persons who are involved in the management of an organization.

Management Accounting The branch of accounting that provides information to assist management of an organization to make operational decisions.

Management Audit An examination of the effectiveness and efficiency of an enterprise's organizational structure, its policies and practices, its system and procedures and its use of human, financial and physical facilities.

Management by Objective A management approach designed to focus on the definition and attainment of overall and individual objectives with the participation of all levels of management.

Management Information System A system designed to provide all levels of management with timely and reliable information required for planning, control and evaluation of performance.

Marginal Cost (MC) The change in total cost resulting from the production of one more unit of output.

Marginal Input Cost (MIC) The change in the total physical use of one more unit of input in production.

Marginal Physical Product (MPP) The change in the total physical product resulting from a one unit change in the amount of input used.

Marginal Revenue (MR) The change in total revenue resulting from a one unit increase in output. In a perfectly competitive market, it is the price of the product.

Marginal Tax Rate A combined rate (percentage) of income tax paid on the last (or next) dollar of taxable income. For residents of all provinces and territories other than Quebec, it is calculated as follows: Provincial (territorial) rate of tax x federal marginal rate of tax for tax bracket + federal marginal rate of tax. For Quebec residents, it is the total of the highest federal and provincial marginal rates applicable to the highest income tax bracket of taxable income.

Marginal Value of Product (MVP) The change in total value of production resulting from the use of one more unit of input. In a perfectly competitive market, it is the marginal physical product multiplied by the price of the product.

Marketing Boards Boards legislated into existence by provincial governments for the sale of agricultural products under a variety of systems.

Market Value Balance Sheet Where assets are valued at fair market value; includes the effect of inflation on assets over time.

Market Value or Market Price 1. The prevailing or last quoted price under conditions applicable in the circumstances. 2. For inventories, any one of current replacement costs, by purchase or reproduction of normal quantities under normal conditions.

Mark-up 1. The amount added to the cost of merchandise to arrive at the price at which it will be offered for sale. 2. An addition to a previously established selling price of goods for sale.

Maturity Date The due date of a security or debt.

Merger The fusion of two or more corporations by transfer of the assets and liabilities to one of the constituent companies.

Minority Interest 1. The equity of the shareholders who do not hold the controlling interest in a controlled company. 2. In consolidated financial statements, the equity in subsidiaries that is applicable to shares that are not owned by the parent company or by a consolidated subsidiary company.

Minutes A record of the proceedings of a meeting.

Mortgage A claim on a property held by the person who has lent money and that is payable by the owner of the property. The claim protects the lender in case the money is not repaid when due. A legal document given by one person (the mortgagor or borrower) to another person (the mortgagee or lender) that conveys a claim on or an interest in the property as security for the debt. It is a lien upon land or other property.

Mortgage Loan An arrangement for financing the purchase of real estate where the buyer gets legal title and use of the property and the lender has the property as security to assure the loan is repaid as agreed.

Multi-step Income Statement That form of income statement which contains groupings of items in order to produce intermediate balances such as gross profit and operating profit.

Necessary Cost Costs that must be maintained to keep producing but do not increase income if they are increased.

Net Position after all applicable deductions have been made. Examples of this use are net profit, i.e. profit after deduction of all related costs; net price, i.e. the price subject to no further discounts; net sales; i.e. sales less returned sales.

Net Capital Ratio Indicates a farm's capability of paying off all its liabilities if all assets were disposed of at a given point in time.

$$\text{Net Capital Ratio} = \frac{\text{Total assets}}{\text{Total liabilities}}$$

Net Farm Cash Income Total cash from operating revenue less total cash from operating expenses.

Net Farm Income The total revenue generated by farm operations minus total expenses incurred for a given period of time; the return to the farmer's unpaid labor, management and net worth invested in the farm business.

Net Farm Operating Income It is the difference between total revenues and total expenses of the business over a given period of time if revenues are greater than expenses. Non-cash items such as inventory changes, accounts receivable, accounts payable and depreciation are included as expenses. It is reflected by an increase in owner's equity.

Net Income The total of farm and nonfarm revenue earned, minus farm and nonfarm expenses incurred, for a given period of time.

Net Present Value A method of analyzing the economic viability of investment alternatives.

Net Worth The interest of the owner or proprietors in the assets of a business. Capital in this sense is often called owner's equity, proprietorship equity, net assets or net worth and is represented by the excess of the total assets over the total liabilities.

Noncash Costs Costs that do not involve a cash payment; for example, depreciation on an asset is a noncash cost.

Obsolescence The condition of becoming out-of-date, obsolete or useless as a result of new discoveries, improvements or changes in consumer demand.

Offer (ask) An action indicating willingness to sell at a specified price (opposite of bid).

One-Write System A system of bookkeeping in which all records, including original documents, are produced in one operation by the use of reproductive paper and special equipment, which provides for proper alignment of the documents being processed.

Operating Expenses Expenses incurred in the usual production cycle, such as seed, fuel, feed and hired labor.

Operating Loan Short term funds for operating requirements, up to a maximum amount.

Opportunity Cost The value of benefits sacrificed in selecting a course of action among alternatives; the value of the next best opportunity foregone by deciding to do one thing rather than another. When resources are scarce, the cost of a resource is not its cost in the marketplace, but its cost in terms of the returns that must be given up by not using it in its best alternative opportunity with the same risk.

Output The quantity of goods and services produced.

Overdraft The excess of withdrawals over the amount available in an account such as a bank account or an appropriation account.

Overhead Expenses that are incurred to produce a commodity or to render a service, but which cannot conveniently be attributed to individual units of production or service.

Partial Budget Partial budgeting is a planning procedure that lists items of revenues and expenses which change with a change in organization or procedure. Most changes in a farm organization do not call for a complete reorganization as many parts of the farm business will remain the same after the change. The partial budget is the appropriate tool in analyzing these changes. Examples are: adding to an enterprise, considering a new enterprise or purchasing machinery. With a partial budget the expected profit of the proposed change can be estimated and compared with the present plan.

Partnership A business with two or more owners who contribute their resources and share management responsibilities, profits and losses.

Par Value An artificial value assigned to a stock, used as a base to calculate dividends. The face value of bonds.

Patronage Payments A distribution paid to customers, based on the volume of business done with customers over a certain period.

Payroll 1. The book, sheet or other record on which are listed the names of employees and the amounts payable to them as salaries or wages at a given time, with particulars as to rate of pay and deductions. 2. The total amount payable to employees at a given time or for a given period.

Person A human being or corporation having rights and duties before the law.

Perpetual Inventory A system of accounting for inventory where a continuous record is kept of the flow of merchandise and/or materials and of the stock on hand.

Petty Cash Cash kept on hand or in a special bank account as a convenience for making small payments.

Physical Inventory An inventory determined by actual count, weight or measurement.

Post To transfer an amount to a ledger from a book or original entry or from a source document.

Preferred Stock A class of capital stock with special rights or restrictions as compared with other classes of stock of the same company. The preference will generally attach to the distribution of dividends at a fixed annual rate, with or without priority for return of capital on liquidation. The restrictions generally apply to voting rights.

Prepaid Expense Service or products for which payment has been made but have not yet been used up or received.

Present Value Discounted value, assuming a given rate of interest and a given period of time. The value that money to be received in the future would have if received today.

Principal 1. A sum on which interest is earned or paid. 2. A person employing another person to make contracts on its behalf with third persons.

Principle of Added Costs & Returns A production input can be added until the additional cost of the input is equal to the additional revenue from the increased output or yield (assuming capital funds are not limiting).

Principle of Diminishing Returns If increasing amounts of a production input are added while all other inputs are held constant, output will first increase at an increasing rate, then at a decreasing rate and finally decline.

Principle of Equimarginal Returns If a resource is in short supply, its allocation should be such that the last (original or added) unit invested in each alternative gives the same (equimarginal) return in each case.

Product A bundle of physical, service, and other attributes that satisfies consumer wants and needs.

Production A process that transforms one or more inputs into one or more products.

Production Function The graphical or mathematical representation of the physical relationship between the amount(s) of a production input(s) used and the amount of output produced when other inputs are held constant.

Production Planning An estimate of the physical resources required and the production expected from an enterprise using specific practices.

Profit The excess of the proceeds of the sale of an asset over its book value. Sometimes used synonymously with net income for the period.

Profitability The ability of a business to generate earnings adequate to reimburse the opportunity cost of the resources used (see Opportunity Cost).

Profit and Loss Statement Same as income statement.

Profit Centre A unit of a business that is accountable for specific revenues and costs.

Profit Sharing Plan A plan that an employer makes available to employees as deferred sums, based on the net income of the business, in addition to normal remuneration.

Progress Billing An interim billing based upon partial completion of a contract.

Projected Cash Flow A list of estimated cash inflow and outflow.

Promissary Note An unconditional promise in writing made by one person to another, signed by the maker, promising to pay on demand or at a fixed or determinable future time a certain sum in money to the order of a specified person or to a bearer.

Proprietorship A business owned and managed by one individual person or family.

Public Company 1. A limited company that is not a private company. 2. A limited company whose shares are available to the public investor.

Quick Assets Cash on hand and in bank, marketable securities held temporarily, accounts receivable maturing within the normal term of credit and short-term trade bills receivable.

Quit Claim Deed Gives up an interest in land thus conveying it to some other person.

Random Number Sampling Random sampling using a random number table.

Rate of Return to Capital (return on investment) - measures profitability to the total capital invested, stated as a percentage.

$$RRC = \frac{\text{Return to Total Capital}}{\text{Total Farm Assets}} \times 100$$

Rate of Return to Equity

$$\frac{\text{Return to Equity}}{\text{Owner's Equity}} \times 100$$

Can be compared with rate of return from alternative investment opportunities, stated as a percentage.

Ratio Analysis The study of financial condition and performance through ratios derived from items in the financial statements.

Current Ratio The ratio of current assets to current liabilities.

Acid Test Ratio The ratio of the total cash, accounts receivable and marketable securities included in current assets to the current liabilities.

Real Estate Land and improvements, includes buildings, standing timber, orchard trees, etc.

Real Income The result of calculating a current income so the effect of inflation has been removed and the purchasing power is constant with a predetermined time in the past.

Real Rate of Interest The rate of interest earned after subtracting the average rate of inflation.

Recaptured Depreciation An amount that must be included in taxable income under the Canadian Income Tax Act. This occurs in any situation where "proceeds of disposition" are sufficient to throw a class of depreciable assets into a credit balance (where undepreciated capital cost is negative at a year-end). Any part of the sales proceeds that represents an amount greater than the original capital cost of an asset is excluded from the "proceeds of disposition," the excess being a capital gain. Recaptured depreciation is treated as a reversal of excessive capital cost allowance deducted in earlier years. Averaging provisions exist to alleviate excessive tax on recapture in any one year.

Receivables Outstanding money owed to you.

Receiver A person or corporation appointed by a court or by a creditor to take charge of property.

Receivership The legal status of a debtor for whom a receiver has been appointed.

Receipts Money received from sales of commodities produced, services rendered or capital items sold.

Reconciliation Any statement accounting for the differences between two related records, e.g., the statement drawn up to account for the difference between a bank balance as reflected in the books of the bank and the balance of the same account as reflected in the books of the bank's customer.

Reducing Balance Method In depreciation the method in which the periodic charge is computed as a constant fraction of the depreciated cost so that the depreciation base is written off by the estimated date of retirement.

Replacement Cost (or value) The current cost of replacing an asset with another that will render similar services.

Residual Value The value remaining to an asset that has served its economically useful life, consisting of salvage value and scrap value. Also the value of a leased asset after expiry of the lease.

Resource An input or factor used in production, such as seed, fertilizer, labor and land.

Restricted Farm Loss An income tax term referring to a set amount of losses from a part-time farming operation that a person is allowed to deduct from non-farm income. Other losses can be carried forward for five years and applied to profits in those years.

Retained Earnings The accumulated balance of income less losses of a corporation after taking into account dividends and other appropriate charges or credits.

Return to Equity A dollar measure of profitability calculated by subtracting the opportunity cost of labor and management from net farm income.

Return to Total Capital Dollar return on both debt and equity capital. Return to Capital = Net Farm Operating Income + Interest Paid - Opportunity Cost of Owner's Labor and Management.

Revenue The gross proceeds from the sale of goods and services, gains from the sale or exchange of assets, interest and dividends earned on investments and other realized increases in owners' equity in a business except those arising as a result of capital contribution and adjustments.

Risk The decision-making situation where there is a chance of an unfavorable outcome for one or more of the alternative actions being considered.

Roll-Over A term in income tax legislation; broadly under specific conditions, a tax-free transfer of property that would otherwise have given rise to income or capital gain.

Royalty A form of rent based on income from exploitation of natural resources or from the use of a patent, trademark or copyright.

RRSP: Registered Retirement Savings Plan This is a contract, accepted by the Minister of National Revenue for registration, between an individual and an authorized person under which the individual makes payment to that person in trust to provide a life annuity commencing at a specified *maturity date.* Payments made into an RRSP are deductible from income, up to a specified maximum, in calculating taxable income. Payments out of the RRSP are taxable when received by the recipient. Registered Retirement Savings Plans are provided in addition or as substitutes of registered pension plans. An individual, through a savings institution such as a trust company, life insurance company or bank may register his own personal savings plan. Within limits, his contributions to the plan are deductible and investment income accumulating in the hands of the trustee is not taxable.

Sales Contract An arrangement for financing the purchase of assets such as machinery or equipment where the buyer gets use of the asset and the seller keeps title to the asset until the agreed payments on principal and interest have been made.

Salvage Value That portion of the residual value of an asset representing the value of parts reclaimed for future use after retirement of the asset.

Sampling The examination of a selection of items from a larger number of similar items with the objective of judging the quality of the whole on the basis of the sample.

Sensitivity Analysis The study of the effect of a change in one variable on other variables and on the final results, using statistical methods.

Share One of the equal parts into which each class of the capital stock of a limited company is divided.

Shareholder The legal owner of shares of a limited company.

Shareholder's Equity The interest of the shareholders in the net assets of a limited company.

Share Lease A type of lease agreement where the tenant gives a share of the production for the use of the land (see Lease).

Short Run A period of time where production commitments cannot be changed.

Shutdown Cost 1. Those fixed costs which continue to be incurred after production has ceased.
2. The costs of closing down a particular production facility.

Simple Interest The method of calculating interest as a percentage of the outstanding balance times the number of years (or fraction of a year) that the amount was outstanding.

Simple Interest Loan A loan scheduled with interest paid only on the principal borrowed, usually for short-term borrowing. If the stated rate of interest is an annual rate, the time must be also in years or fraction of years. The formula is: Interest = Principal x Interest Rate x Time.

Single Entry Bookkeeping A form of bookkeeping in which only cash books and/or personal accounts are maintained in single notation without a self-balancing ledger.

Single Step Income Statement That form of income statement in which all items of revenue are grouped and extended in one total, as are all items of expense, the latter being deducted from the former to arrive at a single figure of net income.

Sinking Fund A pool of cash and investments, usually built up systematically, earmarked to provide resources for the redemption of debt or capital stock.

Sole Proprietorship An unincorporated business wholly owned by one person.

Solvent The ability of an individual or corporation to pay its debts as they become due.

Source Document The original record that is evidence of a transaction.

Statement 1. A transcript of a personal account.
2. Any document setting forth financial data in a more or less formal arrangement.

Statement of Changes in Financial Position A financial statement showing, for a stated period, how the activities of the enterprise have been financed, including the extent to which funds have been generated from operations, how the financial resources have been used and the effects of these activities on the funds of the enterprise.
This statement shows: where the money came from and where the money went.

Statement of Income and Expense A financial statement summarizing the items of revenue, income, expenses and losses for a stated period.

Stop Payment An order by the drawer of a cheque to the bank on which it is drawn not to pay the cheque.

Straight Line Method of Depreciation The method in which the periodic charge is computed by dividing the depreciation base by the estimated number of periods of service life.

Subsidiary Ledger A ledger in which individual accounts of the same type are kept; the aggregate of these accounts is maintained in a control account in the general ledger.

Sum-of-the-Year Digits Method A depreciation method in which the base is allocated to the individual years on a reducing basis by multiplying it by a fraction in which the numerator is the number of years + 1 of estimated life remaining, and the denominator is the sum of the series of numbers representing the years in the total estimated life. For an asset having an estimated life of five years, the denominator is 15 (i.e. 1 + 2 + 3 + 4 + 5) and the numerator for the first year is 5, for the second 4 and so on.

Sunk Cost A cost associated with an irreversible past decision.

Supplementary The production relationship between two products where an increase in the production of one does not affect the other.

Supporting Schedules Additional lists of facts or financial reports that are used with the balance sheet or income statement as supplementary reports.

T-Account A basic form of account that consists of only three parts: a title, a left side for debits and a right side for credits; so called because it resembles a T.

Takeover Bid A bid to purchase shares of a limited or public company with a view to gaining control.

Tangible Asset An asset that can be touched or felt to determine if it is a real or actual physical entity.

Taxable Income Income for a period, subject to taxation, as computed in accordance with income tax legislation.

Tax Avoidance The minimization of the effect of taxation by taking advantage of all allowances and benefits that the law provides.

Tax Class Used to classify capital cost allowance for depreciable assets for income tax purposes.

Tax Evasion The willful attempt to escape the effect of taxation through subterfuge or other infractions of the law.

Tax Haven A political jurisdiction that levies significantly lower taxes than would otherwise be payable in other jurisdictions on similar income.

Tax Lien An encumbrance placed upon a taxpayer's property as security for unpaid taxes.

Tax Management, Tax Planning The arrangements of the affairs of an individual or an enterprise with a view to tax avoidance or reduction.

Tax Shelter A situation in which income that would otherwise be taxable is offset by allowable expenses which do not affect the flow of capital.

Technology In agriculture, the scientific methods, techniques and systems used in modern farm production and marketing of farm products.

Tenant A business or person who leases real estate.

Tenure The act or right of holding real estate; for example, land on a farm may be owned, leased, or partly owned and partly leased.

Term Loan A loan repaid with periodic payments over a stipulated time period of more than one year.

Total Cost (TC) The sum of variable and fixed costs incurred in production.

Total Physical Product (TPP) The total output produced as the result of the use of a specific combination of inputs.

Total Value of Product (TVP) The value of the total physical product (see Total Physical Product).

Trade Credit Short term credit from suppliers.

Trademark An intangible asset consisting of a word, symbol or mark used to identify goods or services with their producer.

Transfer Price The price charged by one segment of an enterprise for a product or service that it provides to another segment of the enterprise.

Transposition An error caused by the interchanging of digits in an amount.

Treasury bill A short-term government security issued at a discount in lieu of interest.

Trial Balance A list of all account balances in a ledger, usually showing the account number or names, prepared to ascertain whether the ledger is in balance.

Trustee A person who holds title to property for the benefit of another.

Trustee in Bankruptcy A person appointed by the court to administer the estate of a bankrupt and distribute available assets to creditors.

Trust Fund Property (especially cash and securities) that has been conveyed or assigned to a trustee to be administered as directed.

Turnover A measure of business activity relating to current assets, showing the number of times assets of a given class have been liquidated and replaced by other assets of the same class within a given period of time.

Uncertainty The situation where the manager does not know the future outcome of decisions. Because of uncertainty, managers must consider risk (see Risk).

Undepreciated Capital Cost Capital cost yet to be depreciated, relating to income tax.

Underwriter 1. A person who issues an insurance contract. 2. A term in corporation's legislation; broadly, a person who subscribes for part or all of any issue of securities with a view to reselling them.

Valuation Day Tax basis from which capital gains tax is calculated.

Value Added Tax (VAT) A tax levied at each stage in the production and distribution chain on the basis of the value that is added to the goods or services passing through the stage.

Variable Expense A cost that varies directly with the volume of production or activity. Within a given time period or production cycle, a variable expense of an input that has been used is no longer variable. It is a "sunk cost". An example is fertilizer after it is put in the soil, or feed after being fed to an animal.

Variance The difference between budgeted or expected performance and actual performance.

Vertical Integration The extention of activity by an organization into businesses directly related to production or distribution of the organization's end products. Although products may be sold to others at various stages, a substantial proportion of the output at each stage is devoted to the production of the end products.

Voucher Any evidence of a documentary nature in support of an accounting entry.

Warranty A written statement promising remedial action on the part of the vendor if defects are found in goods sold during a stated period.

Wear and Tear Physical deterioration of a capital asset through use or exposure to the elements.

Will A legal declaration of a person's mind as to the manner in which he would have his property or estate disposed of after his death.

Winding Up To bring to an end, such as the life of a corporation. The latter is accomplished either by following the winding-up provisions of applicable statutes, surrendering the charter or following bankruptcy proceedings; the method used depends on the state of the affairs of the corporation.

Working Capital The excess of current assets over current liabilities. It is the money available to finance the routine operations of the farm.

Write-Off, Written-Off Term meaning that a customer's account which is considered uncollectable is closed by transferring its balance to reserve for bad debts.

Yield The return of an investment expressed as a percentage of the market value of the investment.

Zero Based Budgeting A management system whereby all programs are re-evaluated each time a new budget is formulated. The benefits associated with different levels of expenditures for a particular objective are identified.

TERMS USED IN CANADIAN WHEAT BOARD GRAIN AND OILSEED MARKETING

Advance Payment A cash advance made to producers on farm-stored grain under the provisions of the Prairie Grain Advance Payments Act for which the Canadian Wheat Board acts as administrator.

Advance Quota A quota opened up for emergency purposes, such as the delivery of tough or damp grain, which is usually debited against a subsequent quota authorized in the normal way.

Amended Quota Area A single revision in the assigned quota area which a producer may make prior to October 31, with the approval of the Canadian Wheat Board. This alters his original quota area assignment made in his permit book application before the beginning of the crop year.

Anticipatory Hedge A short hedge placed in the expectation of a cash purchase, or a long hedge placed in the expectation of a cash sale.

Assignable Area: A declaration by a producer in his Wheat Board permit book application of his land use, in the current year, in the following categories:

a) Land seeded to all varieties of wheat, oats, barley, rye, flaxseed and rapeseed
b) Land in summerfallow
c) Land seeded to miscellaneous crops other than the grain in category a
d) Land seeded to perennial forage up to a maximum of one-third of the total land in the first three categories.

Assigned Quota Areas An allocation by the producer in his Wheat Board permit book application of his total assignable area to the various quota grains that he wishes to deliver in the new crop year. Before October 31, the producer may make one amendment of his original allocation. The assigned quota area establishes the delivery quota base for each grain to which the kilogram quotas authorized from time to time are applicable.

At and East Rates Railway rates for the carriage of export grain and flour from inland points to eastern ports. Inland points include Georgian Bay, Lake Huron and all other points as far east as Prescott. Eastern ports include Montreal and St. Lawrence ports to the east of Montreal and Halifax, St. John and West St. John. The At and East rates are fixed by Section 272 of the National Railway Act and the difference between these fixed rates and compensatory rates is paid to the railways from the Consolidated Revenue Fund.

Block Shipping System The network of 48 shipping areas or blocks into which the grain-producing area of Western Canada is divided. Each block represents a train run or railway subdivision or a group of such subdivisions on which are situated a number of shipping points within a fairly homogeneous production area. The shipping blocks are the units within which the Canadian Wheat Board allocates shipping orders among the companies operating elevators within the block. The elevator companies assign the orders to their elevator managers within each block, and this assignment governs the spotting of cars at the elevators for the loading of grain authorized by the shipping orders.

Board Grain Grain whose marketing is under the control of a producer's marketing board, for example, western wheat, oats and barley, with the exception of domestic feed wheat, domestic feed oats and domestic feed barley which may either be sold by producers on the open market or delivered to the Canadian Wheat Board at the producer's option. Oats will be removed from board control in August of 1989.

Bracken Formula The allocation of Canadian Wheat Board shipping orders among the primary elevator companies on the basis of current business earned by each of them. As a result, the board allocates shipping orders on the basis of a 12-month moving average of the primary elevator receipts of each company.

Business Speculation The sale of a cash commodity and purchase of a futures contract with the idea of speculating on future price increases.

Carryover Stocks The stocks of grain in all positions at the end of the crop year.

Cash Advance A cash advance made to producers on farm-stored grain under the provision of the Prairie Grain Advance Payments Act for which the Canadian Wheat Board acts as administrator.

Cash Contract for Future Delivery A contract between two parties for the purchase and sale of grain of a specified grade and price, to be delivered to the buyer by the seller at a specified delivery point and within a specified delivery period.

Cash Crops Crops that can be marketed with quota restrictions.

Cash Purchase Ticket A ticket issued in prescribed form showing the grade, weight, price and the amount payable for each delivery of grain received into an elevator. The ticket is a negotiable instrument and can be cashed at any chartered bank or designated paying office.

Charting The construction and use of charts or graphs in the technical analysis of futures markets. Price movements, average price movements, volume and open interest are usually graphed.

Cycle Analysis The identification and use of price cycle patterns to predict future price levels.

Daily Bar Chart A chart showing the daily high, low and closing futures price.

Daily Continuation Chart A daily bar chart that always charts the nearest futures contracts for a particular commodity.

Daily Continuation Chart A daily bar chart that always charts the nearest futures contracts for a particular commodity.

Deferred Delivery Contract A contract in which a seller agrees to deliver a specified quantity of grain or oilseed to a buyer for a specified price at a specified date in the future at a specified location.

Deferred Pricing Option Delivery of non-board grain to an elevator company with an option to price it at a later date.

Deferred Settlement Option An option available to farmers that allows them to establish price at the time of delivery, but actual settlement is not made until some time in the future.

Delivery Permit Book A permit book issued by The Canadian Wheat board upon application to each grain producer each crop year since 1940/41, in which the delivery base for each quota grain is established and against which elevator managers record each grain delivery within the limits of an authorized quota.

Delivery Quota A stated number of kilograms per quota acreage base for each specified grain that producers may deliver while that authorized quota remains in force.

Dockage (Screenings) The foreign material removed from delivered grain, used to arrive at the net weight of clean grain. Dockage is expressed as a percentage of the gross weight of the delivered grain.

Embargo An artificial restriction or law preventing the flow of grain out of a country or to a particular country.

Equilibrium Price The price at which the quantity supplied is equal to the quantity demanded.

Final Payment A payment, the amount of which is determined after the grain in a pool account has been sold, or most of it has been sold, that gives each producer who has delivered grain to that pool an equitable share of any surplus which may have accrued in that pool account.

Fundamental Analysis The prediction of future price levels based on supply and demand factors.

Graded Storage Receipt A negotiable elevator receipt issued in respect of grain delivered to a primary elevator that entitles the holder of the document to delivery of grain of the same kind, grade and quantity as the grain referred to in the document, at the location stated on it, upon surrender of the receipt.

Grain Sample A representative sample drawn from grain at unload that is used in determining the grade, dockage and moisture content, and sometimes the protein content, of the whole parcel of grain being sampled.

Initial Payment A sum guaranteed by Order in Council under the provisions of the Canadian Wheat Board Act which is an amount or floor price guaranteed to the producer who delivers grain into a pool account. It is also an initial advance toward a higher final price in the event that the grain is sold at a higher net price, after deduction of marketing costs. The sum is based on a one tonne lot delivered either to Thunder Bay or Vancouver. It is set once per year under the provisions of the Canadian Wheat Board Act.

Initial Quota The designation usually given to the first quota level established for each grain at the commencement of a crop year.

Law of Demand The relationship between the quantity consumers are willing to purchase and price. As prices rise the quantity purchased declines and vice versa.

Law of Supply The relationship between the quantity supplied and price. As the quantity supplied rises prices fall and vice versa.

Moving Average An average price calculated by adding a new price and dropping the first price in the series. For example, if a five-day moving average is being calculated, the average for the sixth day is calculated by adding the price for the sixth day and dropping the price for the first day.

Non-board Grain All grain that is marketed through the open market system, including western domestic feed wheat and domestic feed barley, all eastern oats and barley and for the whole of Canada, all rye, flaxseed, rapeseed, soybeans, corn, mustard, sunflower seed, buckwheat and peas. As of August, 1989 oats will be removed from board control.

Open Quota Denotes the removal of any limitation on the delivery of a grain that has been under quota regulations.

Option The right of executing or renouncing a transaction within a specified period on agreed terms.

Permit Book Application The application form on which the producer describes his lands, calculates his assignable area and assigns his quota acreage as a delivery base in the crop year about to commence. The application is a prerequisite to the issuance of a delivery permit book.

Price Inflation Index An index used to remove the effect of inflation from a time series of prices.

Primary Delivery Point In his permit book application, the producer must name the delivery point at which his grain deliveries will be made. Before 1970 the producer named only one delivery point. From 1970 to 1975 he could name a second or alternative delivery point in addition to his primary delivery point, but this was discontinued in the 1975/76 crop year.

Quota A Canadian Wheat Board specified share of the market given to each eligible permit holder, designated in kilograms per acre or carload per permit holder.

Seeded Area Quota A quota for a specific grain which is applied to the area the producer has seeded to that grain that year.

Selected and Accepted Oats and Barley Oats and barley of high processing quality for which a sample has been submitted to a processor or selector designated by a processor, which has been accepted for purchase.

Shipping Block Any one of 48 railway operating segments comprising one or more railway subdivisions. The block comprises a group of shipping points served by the same railway line, and all primary elevators situated at those shipping points. The shipping block has been the unit basis upon which delivery quotas were authorized and also upon which the Canadian Wheat Board allocates shipping orders among the primary elevator companies. As of 1986-87 the unit basis has been changed to "train runs."

Shipping Points A point on a railway line at which one or more primary elevators are situated for the receipt, storage and loading of grain into railway cars.

Shrinkage An allowance specified by schedule in the Canada Grain Regulations that is deducted from the gross weight of delivered grain to adjust for the normal loss of weight in the handling of clean grain.

Special Quota A quota authorized to meet particular situations such as high-moisture grain and flood threats, also granted to estates or to producers retiring from farming.

Speculator, Speculation The person or act of buying or selling of a commodity future for the purpose of selling or buying the future later at a profit and at the risk of loss. In short, risk bearing.

Stocks/Use Ratio The carryover stocks divided by the annual usage or consumption. The ratio is a measure of the relative tightness of the supply/demand balance. It is usually expressed as a percentage.

Supplementary Quota An additional quota introduced in 1953 and extended to producers who had a high proportion of their cultivated land devoted to the production of one crop. Supplementary quotas were later used to increase the delivery of grains for which market demand was strong.

Technical Analysis The prediction of future price levels based on the study of previous price and market behavior.

Weekly Continuation Chart The same as a daily continuation chart except that the weekly high, low and close are used instead of daily prices.

TERMS USED IN COMMODITY FUTURES TRADING

Arbitrage Simultaneous purchase and sale of the same quantity of the same commodity in two different markets, either in the same country or in different countries. Used to take advantage of what is believed to be a temporary disparity in prices.

At the Market An order to buy or sell at the best price obtainable at the time the order is received.

Basis The difference between the sale or quoted cash price of a particular commodity and a specified futures contract price for the same commodity. As used in the grain trade it's the difference between the net price the farmer receives and the futures contract price upon which the net price is based considering all marketing costs including transportation and handling.

Bear A person who believes prices will fall.

Bear Market A market where large supplies and/or poor demand cause a decline in price.

Bid An action that indicates a willingness to buy a specific amount of a commodity at a specified price (opposite of offer). The bid, unless otherwise stated, must be accepted immediately.

Board Lot In the Winnipeg Commodity Exchange, 100 tonnes, equalling five units of trade - a full futures contract. In the case of the Alberta barley contract, a board lot is 20 tonnes.

Break A quick, extensive decline in prices.

Broker An agent entrusted with the execution of an order. He may be employed in the office of the commission house that carries the account or a floor broker or pit broker who actually executes the order on the trading floor.

Bulge A rapid advance in prices.

Bull One who believes prices are too low and will rise.

Bull Market A market where small supplies and/or strong demand cause prices to rise.

Buy on Close To buy at the end of the trading session at a price within the opening range.

Carrying Charge Market A futures market in which the nearby months are selling at a discount under the distant months.

Carrying Charges The interest and storage costs associated with the ownership of grain over time.

Cash The actual physical product or commodity as distinguished from futures. Also known as "cash commodity," "spot commodity" or "actuals".

CIF Costs, insurance and freight to port of destination, paid or included in price.

Clearing House A separate agency or corporation working in conjunction with the commodity exchange to match up buy and sell orders and through which futures contracts are offset or fulfilled. The clearing house also ensures that financial settlement is made through its facilities.

Close, the The period at the end of the trading session officially designated by the exchange during which all transactions are considered made "at the close".

Closing Price (or range) The price (or price range) recorded during the period designated by the exchange as the official close.

Commission House A concern that buys and sells actual commodities or futures contracts for the accounts of customers.

Commodity Exchange Centres where actual commodities or commodity future contracts are bought and sold. All organized exchanges have definite rules to regulate the details of trading procedures.

Contract Grades Those grades of a commodity which have been officially approved by an exchange as deliverable in settlement of a futures contract (also called deliverable grades).

Convergence The decrease of basis premiums and/or discounts until cash and futures prices coincide by the expiry of a delivery month.

Corner Situation where a single buyer or seller holds a large share of the outstanding long or short positions in the cash and futures markets and therefore can influence to his advantage prices in these markets. In the extreme situation, obtaining more contracts that require the delivery of commodities or securities than actually exist.

Cover The cancellation of a short position in any future by the purchase of an equal quantity of the same future (see Liquidation).

Day Orders Those limited orders that are to be executed the day for which they are effective and are automatically cancelled at the close of that day.

Deferred Futures Futures contracts that expire during the more distant months.

Delivery The tender of negotiable documents (e.g., register warehouse receipts or Lake Shippers Clearance Association and B.C. Grain Shippers Clearance Association transfer certificates) representing cash grain in settlement of a cash or futures contract.

Delivery Month A specified month within which delivery may be made under the terms of a futures contract. The day of delivery is usually selected by the seller.

Delivery Period A specified period of time within which delivery may be made under the terms of a cash contract.

Delivery Points Locations designated by commodity exchanges at which a commodity covered by a futures contract may be delivered in fulfillment of the contract.

Delivery Price The price fixed by the clearing house at which deliveries on futures are invoiced. Also, the price at which the futures contract is settled when deliveries are made.

Exchange of Futures The simultaneous exchange of a specified quantity of futures for the same quantity of the cash commodity.

Exchange Rate The cost or price of one currency stated in terms of another currency.

Evening Up When for any reason traders are completing their transactions by selling, in the case of longs, or by purchasing, in the case of shorts, they are said to be evening up.

First Notice Day The first day on which notices of intentions to deliver actual commodities against futures market positions can be made or received. First notice day will vary with each commodity and exchange. It usually precedes the beginning of the delivery period.

Flat To trade flat is to make a cash grain sale or purchase at a fixed price (flatted, flat price).

Floor Trader An exchange member who executes his own trade by being personally present in the place provided for futures trading.

FOB Free on board.

Forward Price An agreement between a buyer and seller that establishes price prior to delivery.

Full Carrying Charge In futures transactions, the cost (storage, interest, etc.) of taking actual delivery in a given month, storing the commodity and redelivering against the next delivery month.

Futures Contract A term used to designate the standardized contracts covering the purchase and sale of commodities for future delivery on a commodity exchange. Also known as "futures".

Grading Certificates Certificates attesting to the quality of a commodity graded by official inspectors, testers and graders.

GTC Good till cancelled. Usually refers to open orders to buy sell at a fixed price.

Hard Spot An interval of strength in the market, usually resulting from considerable buying.

Harden A term indicating a slowly advancing market.

Heavy This is applied to a market when there is an apparent number of selling orders overhanging the market without a corresponding number of buying orders.

Hedging A transaction to minimize the risk of loss due to adverse price fluctuations. In the futures market, a hedge is a purchase or sale usually made as a temporary substitute for a cash grain transaction to be made later.

Initial Margin The amount deposited by buyers and sellers of futures to ensure performance on contract commitments; serves as a performance bond rather than a downpayment.

Inverse Market A futures market in which nearby months are selling at a premium over distant months. These price relationships are characteristic of situations in which supplies are currently in shortage. Normally because of carrying charges (storage and interest) the highest prices are quoted for distant months. Also known as "premium market".

Job Lot A quantity smaller than the customary unit of trading. In Winnipeg, a job lot is 20 tonnes except in the case of the Alberta barley contract where 20 tonnes is a board lot.

Life of the Contract Period between first and last trade in any futures contract.

Limit The maximum fluctuation in price of a futures contract permitted above or below the previous sessions close during one trading session, as fixed by the rules of a contract market.

Limited Order Order in which the client sets a limit on the price as contrasted with a market order.

Liquidation The closing out of a long position. It is also sometimes used to denote closing out of a short position, but this is more often referred to as "covering".

Long One whose net position of open purchases and inventory exceeds open sales.

Lot Usually any definite quantity of a commodity of uniform grade. The standard unit of trading in a futures market.

Maintenance Margin The minimum amount of money a trader must have in his margin account at all times. A drop below this level will result in a margin call.

Margin A deposit made by a buyer or seller of a commodity futures contract to assure good faith and fulfillment of the contract.

Margin Call Demand for additional funds to restore the guarantee to "maintenance margin" levels because of an adverse price movement or some other contingency.

Market Order An order for immediate execution at the best available price.

Nearby Delivery Means the nearest traded contract month.

Negotiable Warehouse Receipt A legal document issued by a warehouse or elevator describing and guaranteeing the existence of a specific quantity and grade of a commodity in the warehouse or elevator. Facilitates transfer of ownership by endorsement of the owner of the receipt.

Net Position The difference between the open contracts long and the open contracts short held in any one commodity by any individual or group.

Nominal Price A declared price or quotation for a futures contract and for a period in which no actual trading took place.

Off In quoting the basis, the number of points the cash price will be under a specified futures price. Example: 20 points off December.

Offer An indication of willingness to sell at a given price. Opposite to "bid".

On In quoting the basis, the number of points the cash commodity is above a specified futures month. Example: 20 points on December.

Open Contracts Contracts that have been bought or sold without the transaction having been completed by subsequent sale or repurchase, or actual delivery or receipt of commodity.

Open Interest The number of unfilled or outstanding contracts for future delivery of a commodity that exist at a particular time. It is either the total long or total short position in the future.

Open Order An order that is good until cancelled.

Opening Price (or range) The price (or price range) recorded during the period designated by the exchange as the official opening.

Overbought A market price that has been driven too high in relation to the actual conditions of supply and demand.

Oversold A market price that has been driven too low in relation to the actual conditions of supply and demand.

Paper Profit or Loss The profit or loss that might have been realized if the contracts had been offset as of a stated date.

Pit The designated location of the trading floor of a commodity exchange where trading in futures takes place.

Point The minimum unit in which changes in futures price may be expressed.

Position An interest in the market in the form of open commitments.

Premium The amount by which a given future or quality of a spot commodity sells over another future or quality of a spot commodity.

Price Limit The maximum fluctuation in price of a futures contract permitted during one trading session, as fixed by the rules of a contract market.

Purchase and Sale Statement A statement sent by a commission merchant to a customer when his futures position has been reduced or closed out. It shows the amount involved and the price at which the position was acquired. The amount by which it was reduced or closed out is shown respectively. Also shown is the gross profit or loss, the commission charged, and the net profit or loss on the transaction. Frequently referred to as a "P and S."

Range The difference between the high and low price of a futures contract during a specified period.

Reaction The downward tendency of a commodity after an advance.

Round turn The completion of both a purchase and an offsetting sale or vice versa.

Settlement Price The daily price at the close of the market at which the clearing house clears all trades and settles accounts between members for each contract month. Settlement prices are used to determine both margin calls and invoice prices for deliveries.

Short One whose net position shows an excess of open sales over open purchases and/or inventory (opposite to long).

Soften A slowly declining market price.

Speculator Anyone who is willing to invest his money and assume the risk of a price change in the hope of accurately predicting the direction prices will move.

Spot Spot sale or delivery means immediate transfer of title and payment.

Spot Commodity The actual physical commodity as distinguished from the futures.

Spot Price The price at which the spot or cash commodity is selling. In grain trading it is called the "cash price".

Spread Usually the purchase of one future against the sale of another future of the same commodity but in different months.

Stop Loss Order A standing order to buy or sell when the market reaches a specified price. A stop order becomes a market order when the commodity reaches the specified price. The purpose of a stop loss order is to limit losses or to protect a profit.

Switching Simultaneously buying a futures contract for delivery in one month while selling a contract of the same commodity in another month on the same commodity exchange.

Technical Rally (or decline) A price movement resulting from conditions developing within the futures market itself and not dependent on outside supply and demand factors. These conditions would include changes in the open interest, volume, degree or recent price movement and approach of first notice day.

Tenders Issurance of transferable notices announcing the intention of tendering or delivering the actual commodity.

The Close On the Winnipeg Commodity Exchange the last 30 seconds of trading of the futures trading session during which all trades are officially declared to have been executed at "the close".

The Opening On the Winnipeg Commodity Exchange, this period is the two minutes after the first trade at the beginning of the market during which trades are declared as having been executed at "the opening."

Thin Market A market with a small number of buyers or sellers or both buyers and sellers.

Trading Hours (cash grain) Twenty-four hours a day, seven days a week, 365 days a year.

Trading Hours (grain futures markets) On the Winnipeg Commodity Exchange, trading hours are 9:30 a.m. to 1:15 p.m. Central Standard Time or Central Daylight Time, Monday to Friday, except on legal holidays.

Trading Limits In the futures market the maximum advance or decline from the previous day's closing price permitted during one trading session by the regulations of the exchange. On the Winnipeg Commodity Exchange the daily trading limit for feed wheat, feed barley, feed oats and rye is $5 and for rapeseed and flaxseed it is $10. On the Chicago Board of Trade the daily limit in cents per bushel is 20 cents for wheat, 10 cents for corn and 30 cents for soybeans.

Transferable Notice Notice given by the seller of a futures contract that he has made preparation for actual delivery.

Visible Supply Usually refers to supplies of a commodity in commercial positions.

Volume of Trading The total purchase or sales of a commodity futures during a specific period. As purchases equal sales, only one side is shown in published reports.

INSURANCE TERMS

Actual Cash Value (A.C.V.) - the value of property based on its replacement cost less physical depreciation (that due to age, wear, tear and obsolescence).

All-Risk Insurance Refers to coverage of all conceivable risks other than those specifically excluded in the policy. The important point concerning all-risk coverage is that the onus of proof is shifted from the insured to the insurer. Where the perils are specified, the insured must prove that the loss was caused by one of these perils. Under all-risk, the insurer must prove that the loss was caused by an excluded risk to be absolved of liability for payment, which is often difficult to do.

Associate of the Insurance Institute of Canada - (A.I.I.C.) - a first stage diploma gained by passing the examinations of the Insurance Institute of Canada after three or four years of related experience.

Blanket Coverage A type of insurance coverage in which a class of assets (e.g. farm machinery) can be insured without having to identify specific items.

Cash Surrender Value - associated with permanent insurance. It is created through higher annual premiums and grows during the life of the policy. Should the policy be cancelled during this term, these savings are returned or 'surrendered'.

Certificate of Insurance - A summarized statement of policy coverage often used as evidence of insurance coverage. However, lenders often request more detailed evidence of coverage in which case a certified copy of the policy is required.

Chartered Life Underwriter - (C.L.U.) a diploma gained by a life insurance agent after passing the examinations of the Life Underwriters Association of Canada. To achieve this designation requires on the job training, study of several business courses and five to six years work experience. The letters C.L.U. will appear behind the names of life insurance agents who have gained this diploma.

Claims Ratio The ratio between claims overhead and premiums. Your claims ratio over a period of years may affect the premiums you pay or your privilege to buy insurance.

Co-Insurance A device used by companies to encourage individuals to insure to full value. It is based on a percentage of the property value. If insurance is not carried to at least that level, then claims are paid on a pro-rated basis. The insured thus becomes a co-insurer along with the insurance company.

Coversion Option An option allowing the insured to convert a term life policy to some form of permanent insurance without medical examination.

Cover Note A temporary document issued while a policy is being prepared. It gives essential details of the insurance that has been arranged. Sometimes referred to as a binder.

Endorsement An addition to the basic coverage which makes a revision in the policy. This may be a change in name, location, type of coverage or an addition to the property being covered. When added after the start of the policy, it will state a date from which the change becomes effective.

Exclusions Refers to the risks or items that are not covered by a policy.

Extended Coverage Refers to a variety of miscellaneous perils that are insurable in addition to basic fire and lightning. It includes such things as riot, windstorm, hail, vandalism, falling objects, etc.

Fellow of The Insurance Institute of Canada (F.I.I.C.) the second stage diploma gained by passing the examinations of the Insurance Institute of Canada after about five years of related experience. Both the A.I.I.C. and F.I.I.C. letters are sometimes shown after the names of insurance agents or insurance company staff. Like most diplomas, they are not a guarantee of competence, but anyone who has studied these courses is likely to be knowledgeable.

Guaranteed Insurability Option An option in life policies allowing the insured to increase his level of coverage by a specific amount at one or more future dates without medical examination.

Indemnity The compensation payable to the insured as a result of a loss. This will either be for the amount of damages, the interest of the insured in the property, or the policy limit, whichever is the lesser.

Life Insurance

i) Term Life - life insurance that covers a specified period of time and lapses at the end of that period with no cash value to the policy holder. A payout is made only if the policyholder dies during the term of the insurance.

ii) Level Term - term insurance where the potential pay-out upon the death of the policyholder remains constant throughout the life of the policy.

iii) Reducing Term - term insurance where the pay-out upon the death of the policyholder reduces throughout the life of the policy.
iv) Permanent Life - life insurance with savings. A benefit is payable at expiry of the policy whether or not the policyholder dies.
v) Whole Life - permanent life insurance for the entire life of the policyholder with premiums in the same amount each year until the policyholder discontinues the policy.
vi) Limited Payment Life - permanent life insurance for the entire life of the policyholder where premiums are paid only for a specific period.
vii) Endowment Life - permanent life insurance where the face value of the policy is paid to the policyholder at the termination of the policy (after a set period of time).

Mutual Company Mutual insurance companies are essentially owned by the the policyholders. Premiums are paid into a common pool and claims are paid out of this pool. Fraternal organizations and government insurers fall into this class of insurance companies. With the true mutuals, policyholders may earn a small return of premium or dividend in years of favorable performance.

Peril Refers to a potential mishap that would result in a loss. An insurance policy will refer to certain perils (e.g., fire, flood, theft, riot, etc.) which are either covered or excluded by the insurer.

Policy This is the legal contract between the insured and the insurer. The policy sets out the rights and responsibilities of each party.

Premium The fee that is paid by the insured to the insurer. In return, the insurer agrees to cover specified losses to the extent indicated in the policy.

Replacement Cost Value (R.C.V.) the value of the property based on the cost of reconstructing new without deduction for depreciation.

Rider A clause or provision that can be optionally included in the basic policy, usually for an added premium. It is comparable to purchasing optional equipment with a standard model vehicle.

Stated Amount The value of a property based on evidence such as an appraisal is known as the stated amount. If you arrange to insure for this value, then your policy is not subject to co-insurance during the term, regardless of inflation. At the start of the next policy year, the value is revised if necessary and you insure for the new stated amount. This technique is mostly used when insuring commercial property, especially if two or more insurers are involved.

Stock Company Stock insurance companies are organized like other public companies. Their capital consists of shares that can be bought by the general public.

Underwriter Refers to the job of accepting and assessing risks. This term dates back to the early years of marine insurance when private individuals accepted shipping risks by signing their name and the dollar amount of the risk accepted at the foot of a policy. The people who signed their names one under the other at the bottom of the policy were called underwriters.

TERMS USED IN LIVESTOCK MARKETING

ADS - Alberta Direct Sales Sales of live cattle made direct to packers or packers' buyers. Prices quoted are for A grade animals as tabulated and reported by Canfax, Calgary.

APPDC - Alberta Pork Producers Development Corporation A marketing board without the power to regular production through quota systems (see marketing board).

Auction Market (Mart) Facility for sale of livestock by auction in an auction ring.

Backgrounding Feeding of calves over winter on a high roughage, low rate-of-gain ration.

Barrow Castrated male hog.

Basis The difference in price for the same or similar products between two markets; one of which may be a futures market e.g., Omaha live cattle less ADS live cattle basis.

Beef/Hog Price Ratio Live cattle price/slaughter hog price for a given market. A general indicator comparing market returns in the two industries.

Boxed Beef Cryovac-packaged beef packed for shipment in cardboard boxes. Currently the staple commodity of the wholesale beef trade.

Breakeven 1. The feeder price which will ensure a cattle feeder that all operating and capital costs will be met, given a specific live cattle price. 2. The live cattle price which meets the previous criteria, given a specific feeder cattle price.

Breakevens Manual or electronic worksheets designed to calculate returns from livestock feeding and breakeven prices.

Butcher Cows/Bulls Cows and bulls sold for slaughter.

Byproducts Animal slaughter products other than meat, including hide, blood, entrails.

Byproduct Value A price indicating likely return to packers from byproducts for a given week, in dollars per cwt, based on an aggregation or market prices for principal byproducts.

Call Option A financial contract giving the purchaser the right to **buy** a futures contract at a fixed price level on or before an expiration date.

Call Premium The trading price of a particular call option.

CALM Acronym for "computer aided livestock market", an electronic livestock marketing system developed in Australia.

Canner and Cutters A term used in U.S. livestock markets for slaughter cows.

Cattle Cycle The long run fluctuation in the size of the beef herd in response to biological and economic forces. The cattle cycle typically consists of a seven-year expansion phase, followed by a three-year contraction phase.

Cattle On Feed Report Reports released by the USDA estimating cattle numbers in commercial U.S. feedlots. There are two types of cattle on feed reports:
a) Monthly 7-State Report which gives placements and marketings on feed values.
b) Quarterly 13-State Report which gives placements as well as weight breakdowns of the cattle on feed.

Cattle Inventory Reports Reports outlining herd size by animal class. Issued biannually for January 1 and July 1 by both the USDA and Statistics Canada.

CME Chicago Mercantile Exchange.

Cold Storage Report Monthly reports issued by the USDA outlining commercial stocks of frozen pork, poultry and other frozen commodities.

Cost of Production Formula Formula used to determine producer payment price for certain supply-managed commodities, namely eggs and milk.

Cryovac Plastic air-tight meat packaging system.

Currentness The percentage of Al carcasses in the total A grade weekly cattle kill. An indicator of whether feedlots are holding back cattle in anticipation of a price recovery.

Custom Feeding An arrangement for feeding cattle in a commercial feedlot, whereby the calf producer retains ownership of his animals and pays the feedlot a per diem feeding allowance.

Cutability A measure of the yield of retail meat cuts from a carcass, expressed as a percentage of total carcass weight.

Cutout Values Daily estimates of the value of a beef (pork) carcass based on current wholesale market prices. A measure of the returns received by packers.

CWT Hundredweight, 100 pounds

CKG 100 kilograms

Direct Sales Sale of cattle based on direct negotiation between feedlot and packer.

Dressing Percentage The yield of hot carcass (immediately after slaughter) expressed as a percentage of live cattle weight.

Dutch Auction An auction system whereby prices are successively lowered until the first bidder agrees on a given price. Currently used by the APPDC.

Electronic Marketing A marketing system where livestock is auctioned by description to buyers participating via computer terminals, with no movement of livestock prior to the conclusion of sale (see CALM).

English Auction An auction system whereby bids are progressively increased until only one bidder is left.

Exercise Price - Strike Price The price at which a futures position is taken if the option is exercised.

Fat Cattle (Fats) Live cattle. Young (less than 2 years old) cattle for slaughter.

Feeder Cattle Futures (FC) Futures contracts on the CME for 40,000 lbs feeder cattle, as specified under USFSP definition, to be delivered to one of several U.S. delivery points.

Feeding Margin The amount of profit or loss from feeding animals, expressed on a per head basis.

Feedlot Sales A method of auctioning feeder cattle in pens at a feedlot, rather than through an auction market.

Female to Male Disposal Rate The ratio of females to males in the total cattle slaughter. An indicator of shifts in the size of the cattle herd (see cattle cycle).

Fence or Window Term for a specific risk management strategy using options, designed to secure a higher floor price at the expense of putting a ceiling on price gains.

Finish The amount of weight put on an animal. Cattle with a high degree of finish are those with a large fat covering for their body type.

Flat Direct sale carcass price for slaughter cattle negotiated FOB farmgate, regardless of actual grade or weight.

Fleshy Cattle having what the trade considers an excess amount of finish.

FOB Free on Board. Price effective at site of production, for example at farmgate.

Fully Steady A steady to upward-trending market.

Gilt Female market hog.

Graded Delivered Direct sale carcass price for cattle delivered to plant and meeting specific grade and weight range.

Grassers Cattle destined for summer pasture.

Green Feeder cattle with a minimum amount of finish, well suited to feeding.

Handyweight Slaughter carcasses in the preferred (undiscounted) weight range.

Hog Cycle Fluctuation in the size of the pig herd in response to biological and economic forces. The hog cycle is of shorter duration and not as clearly defined as the cattle cycle.

Hog/Corn (Barley) Ratio Ratio of live slaughter hog price to feed price, including any feedgrain market adjustment programs in effect. Represents the bushels of grain that could be purchased with 100 lb of live hog, and reflects the relative profitability of feeding hogs.

Hog Inventory Reports Statistical reports released by Statistics Canada four times/year, estimating the number of hogs on farms by province and by class of hog. USDA releases similar reports for the United States four times per year.

Hogget An Oceanic term for sheep slaughtered between 1 and 2 years of age.

Index 100 A hog scoring 100 on the Canadian grading system is known as an Index 100 hog.

Live Cattle Futures (LC) Futures contracts on the CME for 40,000 lbs choice grade live steers, delivered to one of several U.S. delivery points.

Marketing Agency A national or regional body established by proclamation under the Farm Products Marketing Agencies Act to administer a marketing plan for a regulated commodity.

Marketing Board A provincial body set up under provincial legislation to co-ordinate or regulate the marketing of a farm product within a province. Most of the over 100 boards in Canada do **not** have power to regulate production through quota systems.

Marketing Commission A compulsory, horizontal marketing organization for primary natural products, operating under government delegated authority. The compulsory feature of a marketing commission means that all producers producing a given product in a specified region are compelled by law to adhere to the regulations of a marketing plan, which is usually approved by the majority of such producers. The compulsory feature of a commission is generally a producer check-off or levy for the purpose of advertising, promotion, etc.

Montreal Wholesale Price The weekly settlement price negotiated between packers and wholesalers for carcass beef shipped from Western Canada to Montreal.

New Crop Lambs 40-60 lb plump lambs off of ewe for sale primarily to ethnic trade.

Options Financial contracts giving the purchaser the right to buy or sell a futures contract at a fixed price level on or before an expiration date (see call option, put option).

Options Premium The price of a particular option, established by trading in the options market.

Panorama Sales Feeder cattle sales conducted each fall in the interior of British Columbia.

Pelt Unprocessed sheepskin from slaughter.

Pencil Shrink On direct sales of live cattle, the percentage of shrink negotiated between feedlot and packer.

Per Capita Disappearance Total carcass production of a given meat, net imports and exports, divided by total population. Per capita disappearance is **not** a good indicator of actual meat consumption, and it is being replaced by retail weight equivalent consumption measures.

Pork Belly Futures Futures contracts on the CME for 40,000 lb of pork bellies (bacon), to be delivered at one of several U.S. delivery points.

Pre-Conditioning Preparation of feeder calves for feeding before sale to a feedlot. Certified preconditioning in Alberta consists of a specific series of inoculations and treatments.

Primals Carcass portions subdivided into major muscle groups for wholesale distribution, specifically: chuck, rib, loin, hip, full plate, and flank, in Canada. Boxed beef is shipped as primals or sub-primals.

Private Treaty Sales See Direct Sales.

Producer Payment Price = Producer Pool Price Average price of all sales by the APPDC less non-administrative marketing costs for a week beginning on Friday and ending Thursday. The price paid to producers marketing Index 100 hogs through the APPDC.

Public Market See Auction Market.

Put Option A financial contract giving the purchaser the right to sell a futures contract at a fixed price level on or before an expiration date.

Railgrade Method of sale whereby the producer is paid on the basis of carcass weight and grade rather than on a liveweight basis.

Replacements Livestock sold for purposes other than slaughter.

Retail Weight Equivalent Consumption A per capita consumption measure based on meat production alone, i.e. exclusive of fat and bone. The new standard for meat consumption measurement that will replace per capita disappearance.

Seasonality Seasonal fluctuation in prices in a 12 month pattern, typically in response to biologically-dictated production characteristics.

Sideways A market demonstrating no established price trends.

Single Desk Selling Agency A system such as the APPDC where producers pool their product and sell through one authority, creating, in effect, a market with only one seller.

Slaughter Index The grading index for slaughter hogs in Canada, based on backfat measurements (See Index 100).

Steady A market with prices basically unchanged from previous quotes.

Steer/Corn (Barley) Ratio Ratio of live slaughter steer price to feed price, including any feedgrain market adjustment programs in effect. Represents the bushels of grain which could be purchased with 100 lb of live steer, and reflects the relative profitability of feeding cattle.

Stockers Calves destined for a period of backgrounding.

Supply Management Regulation and control of production and marketing of a product through a quota system.

Undertone A slight but noticeable downward trend in a market's price.

U.S. 7-Market Price An average hog price based on seven principal U.S. hog markets, which are:

National Stock Yards, Illinois; Kansas city, Kansas; Omaha, Nebraska; Sioux City, Iowa; So. St. Joseph, Kansas; So. St. Paul, Minnesota; Indianapolis, Indiana.

USFSP (US Feeder Steer Price) A seven-calender-day average of feeder steer prices from 27 states, based on auction and direct county sales for 600-800 lb feeder steers estimated to grade between 60 and 80% choice when fed to slaughter weight. The cash settlement price for the CME futures contracts on expiration date, tabulated by Cattlefax.

Vertical Integration A term denoting the trend for firms to expand into enterprises either above or below their current link in the marketing chain. For example, the trend for packers to purchase feedlots is an example of vertical integration.