

# **Business Terms & Phrases for Surveyors, Engineers & Facilities Managers in Hong Kong**

**Sr Benny K B Kwok**

BSc CFE CFM CTA CWEM FCA FCPA(Practising)

MBA MCIJ MCIQB MHKIQD MHKIS MIHRM MRICS RPHM RPS(PFM)

<http://www.pdfshop.com>



THE HONG KONG INSTITUTE OF

**SURVEYORS**

香港測量師學會

Sponsored by **The HKIS**

<http://www.pbookshop.com>

**Business Terms & Phrases for  
Surveyors, Engineers & Facilities Managers  
in Hong Kong**

© BENNY K B KWOK, 2016

ISBN: 978-988-77351-0-6

A publication by:

**KNOWLEDGE CONSERVATION**  
*Creative Design & Communicative Media*

© BENNY K B KWOK, 2016

The moral rights of the author have been asserted.

All rights reserved. No part of this publication may be reproduced or transmitted in any form or by any means, electronic or mechanical, including photocopying, recording, or any information storage and retrieval system, without the prior permission in writing from the copyright holders. All enquiries about copyright permission should be addressed to the publisher as follows:

#### KNOWLEDGE CONSERVATION

Unit 1411, 14/F, C C Wu Building,

302-308 Hennessy Road,

Wanchai,

Hong Kong

Email : knowledge.conservation@gmail.com

Web : www.journalism.hk

ISBN : 978-988-77351-0-6

Printed in Hong Kong

#### Important notes:

Any definitions, comments or explanations given in this publication are for general reference only and do not necessarily reflect the views of the publisher or endorsers. Although the author endeavours to ensure that the information in this publication is correct, the publisher, author and endorsers of this publication each excludes liabilities for any error or omission and/or for losses suffered by any person resulting in any way from the use of, or reliance on, this publication.

## Foreword

Clear communication enhances business efficiency and helps to reduce disputes. Sr Benny K B Kwok has helped the development of Hong Kong as a global city through his publication of *Business Terms & Phrases for Surveyors, Engineers & Facilities Managers in Hong Kong*. I would like to congratulate him for this important contribution made to the surveying profession.

*Business Terms & Phrases for Surveyors, Engineers & Facilities Managers in Hong Kong* covers more than 1,000 frequently seen terms or phrases in the context of businesses in Hong Kong. It has the beauty of a dictionary whilst it is handy.

Sr Kwok has wide range of expertise with exposure across many business sectors in the international arena. He is a surveyor and a forensic accountant and he acts as expert witness at the High Court and the District Court in Hong Kong. He is well aware of the importance of clear explanations of jargons and technicalities for both professionals and laypersons.

I would recommend this book to our fellow surveyors, and other executives and professionals. You will find this book informative, easy to read and practical.

**Sr Lau Chun Kong**  
President

The Hong Kong Institute of Surveyors

## Preface

Some fifteen years after my first book, I have written this new title offering a convenient and standalone coverage of terms and phrases frequently seen in businesses. All entries have been carefully selected reflecting the popularity of their usage in Hong Kong.

As sponsored by The Hong Kong Institute of Surveyors, this title is catered for surveyors and professionals alike, particularly those who are at the start of their business careers. Indeed, this book goes well with university students and trainees in their professional studies taking them beyond theory to practicality.

Throughout this book, information is organized by entries following their alphabetical order. Where some entries have more than one possible meaning, alternatives are stated. I have used "he", "him" or "his" as a pronoun embracing both genders for the sole purpose of setting a simple and practical convention, and nothing else. Similarly, "organization" is used as a neutral term covering an unincorporated business, a commercial corporation, a government bureau, a quasi-government entity or a non-profit-making association when such distinction is not necessary.

Cross-references are marked in italic and bold drawing the attention of readers to another terms or phrases with a similar or related meaning in other parts of this book. Readers can seek further information therefrom.

As ever, I have tried my best to make this book as fruitful as possible. However, if I have fallen short, or any readers would like to suggest new entries or elaborate existing ones, please contact me through my publisher KNOWLEDGE CONSERVATION.

**Sr Benny K B Kwok**  
July/August 2016

## Acknowledgements

A number of institutions and individuals have made the completion of this book possible. I would like to thank my friends, colleagues, students and clients during the writing of this book.

My sincere thanks go to The Hong Kong Institute of Surveyors for the support and confidence in me to complete this exciting and meaningful project. The success of this book will serve as a token of my gratitude.

Last but not least, my thanks go to you, the readers. I hope you find this book helpful and a good reference to the business world. Please keep it close at hand to guide you through the complex business world.

**Sr Benny K B Kwok**  
July/August 2016

<http://www.pbooksinfo.com>

## About the Author

Benny K B Kwok is a renowned forensic accountant and expert witness in litigation support, dispute analysis and fraud investigation. He is the author of three other authoritative titles, published and in print worldwide, as follows:

- *Forensic Accountancy (1st and 2nd Editions)*, ISBN 978-962-8972-76-0, LexisNexis 2002 and 2008;
- *Financial Analysis in Hong Kong (1st and 2nd Editions)*, ISBN 978-962-996-574-7, The Chinese University Press 2008 and 2013; and
- *Accounting Irregularities in Financial Statements*, ISBN 978-0-566-08621-2, Gower Publishing UK 2005.

Mr Kwok is professionally qualified with the Hong Kong Institute of Surveyors and the Chartered Institute of Journalists, and is a Chartered Accountant, a Certified Public Accountant, a Certified Tax Adviser, a Chartered Surveyor and a Chartered Construction Manager. Before establishing his independent practice 15 years ago, Mr Kwok worked in a British bank, the British Government and the Big-Four accounting firms.

Upon invitations by the Institute of Chartered Accountants in England and Wales, Mr Kwok wrote an article of *Forensic Accountancy in Hong Kong* in 2003 and an update version of *Forensic Accountancy in Hong Kong: trends in a decade* in 2014 for its technical journals.

Over the years, Mr Kwok has attended arbitration hearings, disciplinary proceedings as well as trials at the District Court and the High Court in Hong Kong, on civil and criminal cases, as an expert witness to give evidence in respect of accounting, commercial and financial matters. Mr Kwok also served, under the respective orders of the District Court or the High Court, as the single joint expert in several civil proceedings.

# A

## **ABC, or Activity-based costing**

A costing technique by which all **costs** in an organization are assigned to its designated activities

**ABC** reflects the resources associated with various activities and the **costs** of consuming each activity in producing products and rendering services. An organization may measure the **costs** as a one-off exercise, for the purpose of assigning the **costs** based on the way of how they are consumed by certain activities.

Attending an onsite maintenance check, conducting a desktop research on overseas properties, and distributing monthly **invoices** or notices by hand (against sending them by **email**) are all examples of those activities.

## **Above-the-line**

1. (In accounting) Items of income or **expenditure** shown above the row of **net profit** in an organization's **income statement**
2. (In advertising) Advertisements placed by an **advertising agent** on behalf of its client, such as advertising space and broadcast time through commissionable media including those in radio, press, posters, cinema and television on which a

A

**commission** is charged  
Also refer to **below-the-line**.

### Absenteeism

Absence from work without any legitimate reason hitting an organization's productivity

It may be measured by the frequency and time lost, and may reflect the morale and job satisfaction among an organization's employees. Other counterproductive factors include **harassment**, **bullying**, **sabotage** and **cyber loafing**.

### Absorption costing

One of **cost apportionment** methods under which an organization's **fixed costs** and **variable costs** are both regarded as part of the production

It is simple and straightforward, and arbitrarily apportions all **costs** to units through an absorption rate by two main steps:

- calculating an absorption rate; and
- applying the absorption rate to units.

There are many bases to calculate the absorption rate, such as:

- units of output;
- **direct labour** hours; or
- machine hours.

Therefore, each unit of output is charged with **fixed costs** and **variable costs**. As the **fixed costs** are treated as part of the actual production **costs**, **inventories** carry total production **costs** within the **statement of financial position** until the **inventories** are sold, rather than charged to the **income statement** in the period in which the **costs** of the **inventories** are incurred. When the **inventories** are sold subsequently, these **costs** are matched with the sales **revenue** of that period and charged to the **income statement**.

Also refer to **marginal costing**.

### ACCA, or Association of Chartered Certified Accountants

A professional body of accountants originated from the UK

Also refer to **HKICPA** and **ICAEW**.

A

### Account

1. (In accounting) A way of categorizing similar transactions and gathering all relevant events and transactions of an organization for the purpose of reporting them in **financial statements**

As part of an organization's **accounting records**, **accounts** may be kept in hard copy or electronic format comprising two sides of double-entry known as **debit** and **credit**.

2. (In commerce) Statement of indebtedness from one party to another

A surveyor may render an **account** to his client in respect of the professional fee for land and property advice. Similarly, a **solicitor** may render an **account** to a property seller (i.e. his client) showing how much the **solicitor** owes the client, as represented by the sale proceeds less the **solicitor's** conveyancing fee and the **mortgage** repayment made to the bank on behalf of his client.

3. (In banking) An arrangement with a bank allowing the account-holder to pay in and take out money

Also refer to **ledger** and **general ledger**.

### Account payable

Refer to **trade payable**

### Account receivable

Refer to **trade receivable**

### Accountant

A person with the relevant skill, knowledge and experience in accounting

In Hong Kong, the term "accountant" has no official definition. "Professional accountant" refers to those registered under the Professional Accountants Ordinance (Chapter 50) through the **HKICPA**. Also, only members of the **HKICPA** can describe themselves **certified public accountants** in Hong Kong.

### Accounting cycle

A circular flow of steps and procedures leading to the preparation



A

and issue of an organization's **financial statements**

The main steps are:

- recording transactions in **journals** and **vouchers** for posting;
- posting entries into **general ledgers**;
- closing **general ledgers**;
- extracting closing balances from **general ledgers** into **trial balance**;
- putting through late adjustments;
- preparing **financial statements** from **trial balance** (after late adjustments) for approval;
- arranging **financial statements** for **audit**; and
- reviewing results against previous **budgets** and preparing new **budgets**.

### Accounting equation

A mathematical expression of **assets** less **liabilities** resulting in **equity**

It describes the relationship between **assets**, **liabilities** and **equity** and forms the foundation of double-entry. It may be interpreted as an organization's **assets** being funded by **liabilities** (i.e. external and internal debts) and/or **equity** (i.e. **owners capital** plus undistributed profits).

### Accounting irregularities

Intentional **misstatements** or omissions of amounts and/or disclosures in **financial statements**

In addition to **misstatements** and omissions, an ambiguous disclosure subject to different interpretations can be deceptive as the interpreter is not able to understand the actual meaning and the consequences of those described events and transactions.

A comprehensive study of **accounting irregularities** can be found in "Accounting Irregularities in Financial Statements" written by Benny K B Kwok and published by Gower Publishing in the UK in 2005.

A

### Accounting period/year

The period/year for which an organization prepares and issues its **financial statements**

While **financial statements** are generally presented annually, organizations can fix their own dates to end their **accounting period**. For **companies** listed in the **HKEX**, **interim financial statements** are required.

Also refer to **fiscal year**.

### Accounting policies

The specific principles, bases, conventions, rules and practices applied by an organization in preparing and presenting **financial statements** in accordance with the **HKFRS** or other accounting framework.

An example of the **accounting policies** would be about the method of **depreciation** selected by an organization to **write off** the **costs of non-current assets**.

### Accounting principles, or Accounting concepts

Principles, concepts, bases, conventions and underlying assumptions on which an organization's **accounting records** and **financial statements** are prepared

In Hong Kong, other than some established conventions, **accounting principles** are mainly sourced from the **HKFRS**. They generally include but are not limited to the following concepts:

- **going-concern**;
- **matching**;
- **prudence**;
- **consistency**;
- **materiality**; and
- **offsetting**.

Also refer to **GAAP**.

### Accounting ratio

The proportional relationship between two or more items from an organization's **accounts** or **financial statements**, expressed in

**A** terms of numbers or percentages  
By focusing on certain key aspects of an organization's financials (such as **profitability**, solvency, efficiency and stability), **accounting ratios** can reveal the meaning and significance from figures which are not readily apparent from **financial statements**.

### Accounting records

**Invoices**, receipts, orders, **vouchers**, **journals**, delivery notes, bank statements, **accounts**, **ledgers** and any other records supporting the transactions and financial positions of an organization

In Hong Kong, section 373 of the Companies Ordinance (Chapter 622) requires a **company** to keep **accounting records** which must be sufficient:

- to show and explain the **company's** transactions;
- to disclose with reasonable accuracy, at any time, the **company's** financial position and financial performance; and
- to enable the **directors** to ensure that the **financial statements** comply with the Companies Ordinance.

In particular, under section 373 of the Companies Ordinance (Chapter 622), the **accounting records** must contain:

- daily entries of all sums of money received and expended by the **company**, and the matters in respect of which the receipt and **expenditure** takes place; and
- a record of the **company's assets** and **liabilities**.

A **director** of a **company** who fails to take all reasonable steps to secure such compliance commits an offence and is liable to a fine (and to imprisonment if such non-compliance is found to have committed wilfully).

Section 374 of the Companies Ordinance (Chapter 622) requires that a **company's accounting records**:

- must be kept at its registered office or any other place that the **directors** think fit; and
- must be open to inspection by the **directors** at all times without **charge**.

If a **company's accounting records** are kept at a place outside

**A** Hong Kong, the **accounts** and returns with respect to the business dealt with in those records:

- must be sent to, and kept at, a place in Hong Kong; and
- must be open to inspection by the **directors** at all times without **charge**.

### Accounting system, or Accounting information system

A coherent set of components (manual or computerized) in gathering, recording, classifying, grouping, summarizing and presenting accounting data in **accounts**, **financial statements** or other formats for an organization's **management** and the purpose of decision-making

### Accrual concept

Recognizing **revenue** when earned and **expenses** when incurred regardless of when the cash is received or disbursed

It requires the **matching** of **revenue** with corresponding **expenses** and reflects the related **assets** and **liabilities**.

### Accrued expenditure

An item of **expenditure** which has already been incurred by an organization during an **accounting period** but has not yet settled at that **accounting period** end

The amount under accrual generally represents an estimate without the support of a valid **invoice** at the closing of **accounts** when the estimate is made. Examples may include electricity **charges** and **audit** fee at the end of **accounting period**. **Expenditure** with the support of valid **invoices** at the closing of **accounts** is generally classified as **account payables**.

### Accumulated amortization, or Accumulated depreciation

Cumulative totals of the amounts of **amortization** or **depreciation** already charged:

- to an organization's **income statement** as an **expenditure**; and
- against **assets** in the **statement of financial position**

A

Also refer to **amortization** or **depreciation**.

### Acid-test ratio

Refer to **quick ratio**

### Acquisition cost

The actual purchase price plus other **costs** in acquisition such as commissions, taxes and delivery **charges**

### Activity-based management

An organization's system of **management** based on **ABC**

It emphasizes on activities which consume resources so as to control activities and the associated **costs** at their source, and no longer merely focuses on product, service, customer or sales channel.

In order to successfully implement this system, an organization generally requires:

- the **top management** commitment to reduce **costs**;
- a push by outside pressure;
- an understanding of the nature and components of **costs**;
- an acknowledgment of it as a continuous improvement rather than a one-off single answer; and
- the ability to **benchmark** the **costs** with relevant statistics.

### Ad blocker

A software to remove various forms of advertisements from webpages so that the loading of webpages can be quicker and easier

Animations, photos, audio sounds, text passages, pop-up windows and video footages may appear when browsing through webpages. **Ad blocker** helps to reduce the time wasted in the loading and deleting those unwanted advertisements.

### Adjudication

Assessing opposing arguments and disagreeing evidence, and rendering a decision in courts or similar forums in Hong Kong

A

It is an alternative dispute **resolution** of settling disputes, particularly in the construction field.

Also refer to **arbitration** and **mediation**.

### Adverse opinion, or Adverse audit opinion

One of the three types of **modified audit opinion** on an organization's **financial statements** given by its statutory **auditor**

Under the **HKSA**, an **adverse opinion** is given when the **auditor** concludes that **misstatements** are both material and pervasive to the **financial statements**.

In essence, if the basis of accounting and/or the extent of errors or omissions are found to be unacceptable and distort a significant or fundamental part of an organization's **financial statements**, an **auditor** may express a not **true and fair view**. However, under usual circumstances, the **auditor** may discuss the findings with the organization's **management** in order to determine whether it is possible to rectify the problem before giving an **adverse audit opinion**.

Two other types of **modified audit opinion** are **qualified opinion** and **disclaimer opinion**.

### Advertising agent

An agent or organization charging a **commission** or flat fee on a client to design, create and arrange advertisements and other promotions such as magazine advertisements, television broadcasts, direct mails and trade exhibitions

Also refer to **above-the-line** and **below-the-line**.

### Advertorial

An advertisement designed and created to appear very similar to an editorial such that some readers may misinterpret that endorsements have been given by the editor and publisher on those described products and services

### Advice note

A document to a customer acknowledging his order and notifying

C Organizations may find some customer relationships unprofitable and may be better off without these customers. At the other end the organizations may identify its most profitable customers and to take steps to ensure the continuation of these most profitable relationships. However, abandoning customers is a sensitive practice, and a business should always consider the **public relations** consequences of such actions.

### Custodian

A person who is entrusted with the guarding and keeping of some properties or records on behalf of their **owners**

### Cyber loafing

The use of the organization's **internet** access by its employees for personal purposes during work hours

Some employees surf the web for gossip and entertainment, write personal **emails**, and chat and shop **online** during work hours. It hits productivity.

Other counterproductive factors include **absenteeism**, **harassment**, **bullying** and **sabotage**.

### Cyberspace

Sites, data and services on the **internet**

## D

### Data migration

A process transferring electronic data between systems, locations or storage types from one to another

Due to the increasing importance of electronic data to business, most organizations designate more resources to the process to ensure the accuracy and completeness of the data during the transfer, and the smooth running after the transfer.

### Data mining

A process of identifying and extracting the relevant data and knowledge from a vast amount of data within a reasonable timeframe

Quantitative techniques such as algorithms and statistics are usually adopted to study data behaviours and identify any trends or patterns.

### DBA, or Doctor in Business Administration

A doctorate degree as the highest academic achievement in the studies (and research to a certain extent) of business theories and practices

It differs slightly from PhD (i.e. Doctor of Philosophy) which focuses more on research and development of new knowledge, while **DBA** puts more weights on practical applications.

Also refer to **MBA**.

### D-commerce, or Digital commerce

A type of **e-commerce** delivering and selling digital products **online**

Examples of digital products include news, survey findings, technical digests or any form of electronic contents. The invoicing, payment collections and customer enquiries are also handled **online**.

### De facto

In reality or as a matter of fact

**De facto** control refers to the actual control regardless of the legal ownership over a **company**.

### Dealer

A trader who carries on a business of dealing in securities on his own **account** as a principal rather than as an agent

### Debenture

A loan agreement which promises to pay a fixed rate of interest over a period of time

### Debit

An accounting entry giving the effects of:

- an increase in **assets**;
- a decrease in **liabilities**;
- a decrease in income; and/or
- an increase in **expenditure**

**Debit** and **credit** represent the two opposing sides in each of the **accounts** in the **general ledgers** of an organization.

### Debit note

Refer to **invoice**

### Debtor

Refer to **trade receivable**

### Decentralization

A transfer of duties, powers and authorities from the head office to regional offices, or from **top management** to more junior staff

It seeks to motivate junior staff and to improve the quality and acceptability of decisions.

### Decision tree

A diagram with arrows or pointers illustrating alternative actions and expected results under each alternative for the purpose of supporting decision makers

Each alternative (i.e. decision) is drawn as a separate branch of the tree showing the route and steps reaching the ultimate point (i.e. expected result).

### Deductible amount

Refer to **excess**

### Deductible expenses

Outgoings and expenses which are incurred by the taxpayer during the **basis period** for the **year of assessment** in the production of chargeable profits under the **IRO**

Also refer to **assessable profits**.

### Deed

A written document which, once executed, passes a title, interest, right or obligation to others

### Deferred expense

A **cost** which has been parked as an **asset** for charging to the **income statement** at a later date, e.g. certain research and development **expenditure**

### Deferred tax asset

An estimated **account** of **profits tax** recoverable by **company** in future periods following the belief that the tax consequences of transactions and other events should be accounted for in the same way as those transactions and other events themselves, under the **HKFRS**

It is derived from:

- deductible **temporary differences**;
- the carryforward of unused **tax losses**; and
- the carryforward of unused tax **credits**.

### Deferred tax liability

An estimated amount of **profits tax payable** by a **company** in future periods following the belief that the tax consequences of transactions and other events should be accounted for in the same way as those transactions and other events themselves, under the **HKFRS**

It is mainly derived from taxable **temporary differences**.

### Defined benefit plan

A retirement or **pension** plan which specifies the amount that a retiree is to receive possibly based on a percentage of that person's final salary (just before his retirement) multiplied by the years of service

The employer is obliged to contribute towards those amounts.

### Defined contribution plan

A retirement or **pension** plan which specifies the amount that the employer is obliged to contribute a specific amount into a fund to be used for payments to retirees

The plan does not specify the amount that a retiree is to receive.

### Deflation

A drop in prices, or a fall in the general pricing level in an economy

It might be caused by many factors, such as excessive production (i.e. rising supplies) or government spending cut-backs (i.e. falling

**demands**).

Also refer to **inflation**.

### Defunct company

A **company** which does not carry on business or is not in operation and does not submit annual returns for two or more consecutive years

If the **Companies Registrar** has reasonable cause to believe a **company** as being defunct, it may be struck off from the register under the Companies Ordinance (Chapter 622).

### Demand

The amount or a type of products or services that people or organizations buy (or want to buy)

### Demerger

A split-up of an organization (or a group of organizations) in order to form two or more independent operations or organizations

**Conglomerates** may be demerged to improve their value by demonstrating smaller, but clearer, business to the financial market.

### Deposit

Refer to **payment on account**

### Depreciation

Charging the **costs** of a **non-current asset** to the **income statement** over the **useful life** of that **asset**

It seeks to allocate the **costs** to comply with the **matching** principle, and is not intended to be a valuation process. In other words, the amount allocated to expense in the **income statement** is not indicative of the economic value being consumed. Similarly, the amount not yet allocated is not an indication of its current **market value**.

Generally, there are two main **depreciation** policies for organizations to adopt. Straight-line method or policy **writes off** the **asset's** (i.e. **cost** less **residual value**) over the estimated

**useful life** at an annual rate which gives a constant **charge** over the **asset's useful life**. Reducing balance method or policy is to depreciate at a constant percentage applicable to the net balance of the **asset's (cost less residual value** after each of the previous years' **depreciation**). Therefore, reducing balance method or policy results in decreasing amounts of **charges** over the **useful life**.

## Deregistration

One of the ways to dissolve a **company** in Hong Kong

A defunct solvent **company** which meets the required conditions may be dissolved by applying for **deregistration** under section 750 of the Companies Ordinance (Chapter 622). **Deregistration** is a relatively simple, inexpensive and quick procedure for dissolving a defunct solvent **company** which:

- has not commenced or has ceased operation or business;
- has no outstanding **liabilities** and all the members agree to the **deregistration**;
- is not a party to any legal proceedings; and
- has no immovable property situate in Hong Kong.

## Derivatives

**Futures, options** and other financial instruments of which the value is dependent upon the value of **bonds, equities**, currencies or commodities

Professional investors sometimes buy or sell **derivatives** to manage the risks associated with the underlying security (i.e. to hedge against unfavourable fluctuations in the value of that security), or to profit from periods of inactivity or decline (i.e. speculation).

## Devaluation

Reduction in the value of one currency in relation to other currencies

## Differentiation

Refer to **product differentiation**

## Digital money, or Digital currency

An **internet-based medium of exchange** (such as **bitcoin**)

It may be used to buy physical products and services but could also be restricted to certain communities (e.g. for use inside an on-line game or social network). **Digital currencies** are largely decentralized such that there is no central point of control over **money supply**.

Also refer to **virtual money**.

## DIPN, or Departmental Interpretation and Practice Notes

Issued by the **IRD** for the information of taxpayers and their tax **representatives**

They contain the **IRD's** interpretation and practices in relation to the laws as it stood at the date of publication. Taxpayers still have their right of objection against the assessment and their rights of appeal to the Commissioner of the **IRD**, the Board of Review or the Court are not affected by the application of **DIPN**.

## Direct cost

A **cost** which can be traced to an object to which the **costs** are to be determined

An example of that object may be the maintenance department to which the wages of the maintenance workers are **direct costs**. However, when the object becomes the finished product, wages are regarded as **indirect costs**.

**Direct costs** are sometimes known as **prime costs** and include **direct labour, direct materials** and direct expenses.

Also refer to **cost behaviour** and **indirect cost**.

## Direct labour

**Costs** associated with workers who are involved in production or servicing

Examples include painters, machine operators and assembly line operators. In servicing, it refers to those providing services directly to customers, such as customer service officers and, for professionals, fee-earners in a surveying or law firm.

## Direct materials

**Raw materials** which are traceable to a manufactured product, such as plastic of a keyboard and cotton of a T-shirt

## Director

A member on a **company's board of directors**

As a **company** is a separate legal entity, some individuals must be made responsible for its direction and accountable for its actions.

The **board** is appointed by the **company's** shareholders and is collectively responsible for its operations. The basic authority, roles and responsibilities of the **board** are normally defined in the **articles of association**. In practice, the **board** delegates its authority and responsibility to **management** in order to effectively lead and run the **company**.

According to the **Companies Registry** in Hong Kong, some of the principle responsibilities are as follows:

- duty to act in good faith for the benefit of the **company** as a whole;
- duty to use powers for a proper purpose for the benefit of members as a whole;
- duty not to delegate powers except with proper authorization and duty to exercise independent judgment;
- duty to exercise care, skill and diligence;
- duty to avoid conflicts between personal interests and interests of the **company**;
- duty not to enter into transactions in which the **directors** have an interest except in compliance with the requirements of the law;
- duty not to gain advantage from use of position as a **director**;
- duty not to make unauthorized use of **company's** property or information;
- duty not to accept personal benefit from third parties conferred because of position as a **director**;
- duty to observe the **company's memorandum** and

**articles of association** and **resolutions**; and duty to keep proper books of account.

## Disaster recovery plan

Refer to **business continuity plan**

## Disclaimer opinion, or Disclaimer audit opinion

One of the three types of **modified audit opinion** on an organization's **financial statements** given by its statutory **auditor**

Under the **HKSA**, an **auditor** shall disclaim an opinion when he is unable to obtain sufficient appropriate **audit evidence** on which to base the opinion, and the **auditor** concludes that the possible effects on the **financial statements** of undetected **misstatements**, if any, could be both material and pervasive. The **auditor** shall disclaim an opinion when, in extremely rare circumstances involving multiple uncertainties, he concludes that, notwithstanding having obtained sufficient appropriate **audit evidence** regarding each of the individual uncertainties, it is not possible to form an opinion on the **financial statements** due to the potential interaction of the uncertainties and their possible cumulative effect on the **financial statements**.

In essence, if the scope of **auditor's** work is severely undermined or fails to give sufficient appropriate **audit evidence** to a significant or fundamental extent, the **auditor** may state the inability to form any opinion. However, under usual circumstances, the **auditor** may discuss the findings with the organization's **management** in order to determine whether it is possible to rectify the problem before giving a **disclaimer audit opinion**.

Also refer to **qualified opinion** and **adverse opinion**.

## Discontinued operations

Operations of a division, **subsidiary** or segment of an organization which has been eliminated

## Discount rate

A rate of return to convert future **cash flows** into **present value**, and



# H

## Harassment

Disturbing and threatening behaviours in offensive nature

It hits productivity, and other counterproductive factors include **absenteeism**, **bullying**, **sabotage** and **cyber loafing**.

## Hedge fund

A fund which adopts aggressive **investment** objectives and strategies, such as **short selling**

It generally requires a minimum **investment** of which the amount is set at a relatively high level of millions of dollars restricting participation only to high-net worth and professional investors.

## Hiring freeze

A situation under which an employer does not recruit any new staff for the foreseeable future

Possibly as a **cost**-saving measure, it occurs in **recession**, economic downturns or specific problems encountered by the employer (e.g. losses of major customers or operating licence for key products).

## Historical cost

A measurement of value in accounting based on its original purchase **cost** when the item was first acquired by the organization  
Also refer to **replacement cost** and **realizable value**.

## HKFRS, or Hong Kong Financial Reporting Standard

Standards and interpretations of accounting issued and adopted by the **HKICPA** comprising:

- **Hong Kong Financial Reporting Standards**;
- Hong Kong Accounting Standards;
- HK(IFRIC) interpretations; and
- HK(SIC) interpretations

Also refer to **CAAP**.

## HKEX, or Hong Kong Exchanges and Clearing Limited

A global operator of exchanges and clearing houses based in Hong Kong

It operates the securities and **derivatives** markets and their related clearing houses, and regulates listed issuers and administers listing, trading and clearing rules.

It also provides services (such as trading, clearing and settlement, **deposit** and nominee services and information services across multiple products and **asset** classes), primarily at the wholesale level, to participants and users of its Exchanges and Clearing Houses.

Some of **HKEX**'s wholly-owned subsidiaries include:

- **The Stock Exchange of Hong Kong Limited** (which operates the **stock exchange** in Hong Kong);
- Hong Kong Futures Exchange Limited (which operates a **futures** and **options** exchange);
- Hong Kong Securities Clearing Company Limited (which operates a clearing house for securities); and
- The London Metal Exchange (which operates an exchange for the trading of base metals **futures** and **options contracts**).

## HKICPA, or Hong Kong Institute of Certified Public Accountants

An institute established under the Professional Accountants Ordinance (Chapter 50) in 1973 to register and **grant** practising certificates to **certified public accountants** in Hong Kong

It works in the public interest and has responsibilities, including:

- assuring the quality of entry into the profession;
- promulgating financial reporting, **auditing** and ethical standards in Hong Kong; and
- regulating and promoting efficient accounting practices in Hong Kong to safeguard its leadership as an international financial centre.

In 2016, it has about 40,000 members (of which more than 5,000 have reached the **fellow** statuses and more than 4,000 have gained the practising certificates). Its members are entitled to the description of "**certified public accountant**" and to the designation of "**CPA**" or "**FCPA**". For a **CPA** or **FCPA** holding a practising certificate, **CPA(Practising)** or **FCPA(Practising)** may be adopted.

## HKMA, or Hong Kong Monetary Authority

A statutory body established in 1993 by merging the Office of the Exchange Fund with the Office of the Commissioner of Banking

It is governed by the Exchange Fund Ordinance (Chapter 66) and the Banking Ordinance (Chapter 155), and reports to the Financial Secretary. Its main functions include:

- maintaining currency stability within the framework of the Linked Exchange Rate system;
- promoting the stability and **integrity** of the financial system;
- helping to maintain Hong Kong's status as an international financial centre; and
- managing the Exchange Fund.

It is one of the four financial regulators in Hong Kong charged with oversight of finance and investing. The other three regulators are:

- **Securities and Futures Commission;**

- **Office of the Commissioner of Insurance;** and
- **Mandatory Provident Fund Schemes Authority.**

## HKSA, or Hong Kong Standard on Auditing

Standards issued by the **HKICPA** in respect of **auditing, assurance engagements** and other related work

## Holding cost

A **cost** of storing **inventories** or other **assets**

It includes loss of interest on tied-up funds, risk of theft, insurance, storage rent, storage facilities, security devices and other necessary expenses. Some stored items may easily become obsolete or damaged by weather, or through handling.

## Holding company

Refer to **parent** or **parent company**

## Holdover application, or Holdover

An application by a taxpayer who anticipates a drop in his income or profits

Once successfully, the application allows holding over of provisional tax or payment of tax by instalments. The application must be in writing within a time limit to the **IRD**.

## Horizontal analysis, or Trend analysis

An analysis of **financial statements** over several years

It focuses on the trend and pattern of individual items in **financial statements** or how those items relate throughout the years. It usually starts with a base year, and the amounts in subsequent years are expressed as a percentage of the base year amounts, which allows tracking the trend and pattern as percentages of the base year amounts.

## Horizontal integration

Adding business activities by an organization to those existing operations along the same level of the **value chain**

It may be achieved by **organic growth** or **M&A** allowing different organizations at the same stage of production to share resources at that level.

However, as producers and operators in a given market are being combined, it would be scrutinized for any indications of anti-competition behaviours.

### Hot money

Money which may flow between financial markets at very short notice in the attempt to capture higher returns and better **investment** potentials

Sometimes, **hot money** may refer to stolen and untraceable money.

### HP, or Hire purchase

A **contract** between a buyer and a seller in which the buyer takes possession of an item and then pays for it in regular instalments

In general, the buyer does not become the **owner** of the item until the final payment has been made.

### HR, or Human resources

Workers, supervisors, **management** and all people within an organization together with their efforts and brainpowers engaged by that organization to maintain its survival and to contribute towards its profits

**HR management** generally refers to the practice of managing an organization's employees and administering their recruitment, pay, benefits and departure.

### H-Share

A share of **companies** listed on the Hang Seng China Enterprises Index of the Hong Kong **Stock Exchange** and incorporated in mainland China

As many **companies** now list their shares both on the Hong Kong **Stock Exchange** and one of the mainland Chinese **stock exchanges**, price discrepancies between the **H-Share** and the

**A-Share** of the same company are common.  
Also refer to **A-Share**, **B-Share** and **red chip**.

### Joint products

Two or more products or outputs being generated simultaneously by a single process using common inputs

**Joint products** are not distinguishable and usually of similar value with undifferentiated **joint costs** until they reach the split-off point

Also refer to **joint supply**.

### Joint stock company

Generally having the same meaning as a **limited company**

In the USA, it can be registered without **limited liabilities**, and its stockholders are not separate from the business debts.

In the UK and Hong Kong, **joint stock companies** are referred to as unlimited **companies**.

### Joint supply

A production process of supplying **joint products**

### Joint venture, or JV

An entity established in order to accomplish a specific objective, such as the construction of infrastructure facilities for the society

**JV** is a temporary arrangement between two or more organizations and has the advantage of reducing risks (particularly for new markets) and pooling resource for large projects.

### Journals

The first record of events or transactions by an organization in chronological sequence for the purpose of supporting further processing in the **accounting system**

### Junk bond

A high-yield and non-**investment grade bond**

It carries a Standard & Poor's rating of "BB" or lower, or a Moody's rating of "Ba" or below. The term "junk" refers to the higher default risk in comparison with **blue chip bonds**.

## K

### Key management personnel

**Directors**, officials, senior executives and their related personnel having authority and responsibility for planning, directing and controlling the activities of an organization, either directly or indirectly

### Kickback

Illicit commissions paid to one party to order to induce that party's assistance in collusion

### Kiting

A white-collar crime involving multiple bank **accounts** with **deposits** and transfers between **accounts** despite the funds never exist

It may be committed by deliberately issuing a cheque for an amount higher than the balance in one bank, then writing a cheque from another **account** in another bank also with insufficient funds, with the second cheque serving to cover the first **account**. It therefore seeks to falsely and temporarily inflate the balances in order to allow written cheques, which would otherwise bounce, to clear.

### Knock-in option

An **option** which is activated only when a certain price is reached before its expiration

For example, one may buy such **option** with a knock-in price of \$100 and a **strike price** of \$120. If the price of the underlying **asset** does not reach \$100 during the **option's** life, the **option** is disregarded as it never exists. Otherwise, it becomes a regular **option** with a **strike price** of \$120.

### Know-how

Skill, knowledge and expertise developed and maintained by an organization over time in order to preserve its competitiveness and enhance its edge

### Knowledge management

The system and process of developing, adding, sharing and managing knowledge and relevant information within an organization

### KPI, or Key performance indicator

A measurement to define successful aspects in business performance and to assess such business performance in a quantifiable scale

Effective **KPIs** have clear objectives and are measurable (quantitatively and qualitatively) in order to form the basis for **variance** analysis.

### KPO, or Knowledge process outsourcing

A type of outsourcing under which the knowledge and information-related activities are carried out by other organizations, e.g. market research for branded household consumables, animation creation for film production and research and development for pharmaceuticals and biotechnology

Those third party organizations may be service providers operating at a lower **cost** base (e.g. situating in loss prime location) or with superior expertise (e.g. having a large pool of temporary

workers conducting market questionnaires and creative artists designing animations.

Also refer to **BPO**.

### KYC, or Know your clients

**Due diligence** on new clients before acceptance

A standard enquiry process in the **investment** industry that ensures **investment** advisors know detailed information about their clients' risk tolerance, **investment** knowledge and financial position.

- securing the site to prevent further losses occurring;
- recommending appropriate repairs;
- investigating suspicious claims; and
- liaising with other **underwriters** to negotiate the spread of **liability**.

### Loss assessor

The person appointed by the policyholder to assist in submitting a substantial or complex claim

His main roles include:

- meeting with the **underwriter's representatives**;
- preparing the claim;
- negotiate the best possible settlement of the claim; and
- dealing with difficult cases where a claim has initially been declined by the **underwriter**.

Also refer to **loss adjustor**.

### Loss of profits, or Lost profits

The amount of profits lost by one party when a **contract** is breached by other parties or arising from an insurance or tort claim

It is about the losses of profits which would otherwise be generated by the deprived party without the breach, accident or tort.

### Lump sum contracts

A **contract** under which the **contractor** undertakes to carry out a defined amount of work in return for an agreed price

Once the work is done, the price is paid without requiring any **breakdown of costs**.

## M

### M&A, or Mergers and acquisitions

A general term to describe the different forms of combinations of two or more organizations into a single entity

A **merger** is a combination of two organizations to form a new organization, while an acquisition is the purchase of one organization by another in which no new organization is formed.

### Maladministration

Inefficient, bad or improper administration

It usually applies to the government, bureaus or public sector's agencies in respect of:

- abuse of power;
- delay or inaction;
- disparity in treatment or unfairness;
- error, wrong advice or decision;
- failure to follow procedures;
- faulty procedures;
- ineffective control;
- lack of response;
- **negligence** or omissions;

- selective enforcement; and
- staff attitude.

### Management

An individual or a team in **charge** of directing, supervising and controlling the work and resources of an organization

### Management accountancy, or Management accounting

One of the main branches in accountancy designated for **management** and decision-making purpose

It refers to the skills and techniques in collecting, processing, analysing and presenting financial and non-financial data in order to support various decisions that an organization's **management** is to make in respect of:

- planning;
- budgeting;
- strategy formulation;
- costing analysis;
- pricing of products and projects;
- **investment in fixed assets** and projects;
- **corporate governance**;
- monitoring and control; and
- performance measurement.

Also refer to **financial accountancy**.

### Management by exception

A way to manage an organization by focusing on significant deviations from the norm only

The aim of such practice is to put the attention and emphasis on the unplanned or unexpected issues.

### Management by objective

A way to manage an organization by setting explicit goals or objectives

The aim of such practice is for managers and employees to have clear understanding of their roles and responsibilities. Accordingly,

by accomplishing individuals' goals and fulfilling responsibilities, the organization's overall objective can be achieved.

### Management by walking around, or Management by wandering around

An informal way to manage an organization by observing through unplanned visits to workers and their work areas

Such practice aims to keep managers staying in touch with front-line staff and to enhance their morale by periodic visits.

### Management charge

The of total **costs** in managing some facilities which includes operating the facilities and servicing the users (e.g. billing and customers' enquiries)

It is generally funded by contributions or reimbursements from users or **owners** of those facilities, and may be recorded and collected by the facilities manager through monthly billing.

### Management fee, or Manager remuneration

The **cost** to an **owner** of having an **asset** or some facilities professionally managed

In essence, it refers to the remuneration to a manager (or an organization taking **charge** of such duties) for managing the **assets** and facilities.

It may include the supervising of the onsite team and **contractors** as well as the general accounting and administration. It does not usually include toll or rent collection and specialist building services which are outside the scope of routine **management** duties.

### Manufacturing overheads

The **costs** of **indirect labour**, indirect materials and other indirect expenses associated with the ongoing operation of a factory and manufacturing facilities

### Mareva injunction

An interim relief granted by the court prohibiting disposal or transfer

of **assets**, such as freezing a bank **account**

Anyone who does not comply with the injunction may be found guilty of contempt of court.

### Margin account

A **brokerage account** in which investors borrow extra funds to purchase securities

The borrowed funds are collateralized by securities and cash. If the value of the securities falls below a threshold, the investor will be required to increase the collateral by depositing more cash or **assets**. Through **marginal trading**, an investor's profit or loss is amplified because of the **leverage effect** on the margin.

### Margin call

A **demand** on an investor to **deposit** extra cash or securities so that his **margin account** is brought up above the threshold

### Margin of error

A range of possible errors in a forecast or calculation which is tolerable from the users' perspective

### Margin of safety

1. (In accounting) The difference between the **break-even point** and the forecast position
2. (In finance) The difference between the **intrinsic value** and the **market value**

### Margin trading

Buying securities on **credit**

An investor places a margin (usually a cash **deposit**) with the financial institution and can purchase securities at a multiple times of the margin. The financial institution **charges** interest on the borrowed funds and keeps the portfolio of securities as collateral.

### Marginal analysis

Evaluation of incremental **costs** and benefits associated with an

activity or project

It is used unconsciously in decisions every day, and as a formal decision-making tool to maximize profits (i.e. minimizing incremental **costs** and/or maximizing incremental benefits). **Marginal analysis** seeks to assess how the system or overall result is affected by a marginal adjustment to its variables, one change at a time.

### Marginal costing

One of **cost apportionment** methods under which only **variable costs** are regarded as part of the production

It evaluates **profitability** in terms of contributions (i.e. **revenue** less **variable costs**), and may be perceived as the additional **cost** of producing one such unit.

**Fixed costs** are treated as **costs** of the period and charged to the period in which they are incurred against the amount of contribution. **Inventories** carry **variable costs** of production only. Therefore, **marginal costing** is not suitable for **inventory** valuation, according to the **HKFRS**, because of the lack of **fixed cost** element.

Some specific features of the **marginal costing** technique are:

- its recognition of **cost behaviour**, providing better support for sales pricing and decision-making;
- better control reports based on contribution varying with the sales level; and
- **fixed costs** being addressed within the period that give rise to them

Also refer to **absorption costing**.

### Market development

A marketing technique to expand an organization's market by selling:

- new products or services to existing customers;
- existing products or services to new customers; and
- new products or services to new customers

It involves finding out what **market segment** the organization currently serves and then seeks to increase an organization's



market size with a view of widening its customers' base and capturing competitors' customers and entering into a previously untapped **market segment**.

### Market equilibrium

A balanced position at which the price and quantity of **demand** matches with those of **supply**

Accordingly, it represents the price and quantity of a product or service at which the **demand** by customers matches with the **supply** by producers.

### Market forces

The two opposing forces of **demand** and **supply** and how they interact in a market in determining the price and quantity of the underlying products or services

Due to the lack of physical visibility, the **market forces** are sometimes referred to as the "invisible hands".

### Market maker

An individual or organization which provides a market for the exchange of a product

Usually, it refers to a financial institution which quotes both the buy (bid) and sell (offer) price for a security held in **inventory**, seeking to profit on the **bid-offer spread**. Once an order is received, the **market maker** should immediately sell from its **inventory** and/or seek an **offsetting** order.

### Market penetration

Marketing and promotions which seek to infiltrate more deeply into an existing customer base, e.g. adding more business locations to increase access to more customers in the existing market

It measures the velocity of sales growth or the adoption of a product or service compared to the total theoretical market for that product or service.

### Market risk

The risk of losses to investors due to the overall market performance

By its nature, it cannot be eliminated through diversification when buying and selling in the market.

### Market segment, or Market segmentation

Dividing a market into groups based on the differences in variables, such as customers' profiles, geographical locations of markets and functionality of products

By identifying and defining target customers, the effectiveness of marketing efforts can be increased.

### Market share

The proportion of total sales in a market attributable to a particular organization over a specified time period

It indicates the size of an organization relative to its competitors or overall market, and is calculated by dividing the organization's sales over the period by the total sales of the industry over the same period.

### Market-to-book ratio

The current value of an organization as prevailed in the market (i.e. market capitalization) as a percentage of its reported amount of **net assets** in **financial statements** (i.e. **book value** or carrying amount)

### Market value

The estimated amount for which an **asset** should exchange on the valuation date between a willing buyer and a willing seller in an **arm's length transaction**, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion, according to the **International Valuation Standards**

The above definition are elaborated as follows:

- "the estimated amount" refers to a price expressed in terms of money **payable** for the **asset** in an **arm's length transaction** by specifically excluding special terms or

circumstances.

- "an **asset** should exchange" refers to the fact that the value of an **asset** is an estimated amount rather than a predetermined amount or actual sale price.
- "on the valuation date" requires that the value is time-specific as of a given date.
- "a willing buyer" refers to one who is motivated, but not compelled to buy.
- "a willing seller" is neither an over eager nor a forced seller prepared to sell at any price, nor one prepared to hold out for a price not considered reasonable in the current market.
- "in an **arm's length transaction**" is one between parties who do not have a particular or special relationship, that may make the price level uncharacteristic of the market or inflated because of an element of special value.
- "after proper marketing" means that the **asset** would be exposed to the market in the most appropriate manner to effect its disposal at the best price reasonably obtainable in accordance with the above definition.
- "where the parties had each acted knowledgeably, prudently" presumes that both parties are reasonably informed about the **asset**, its actual and potential uses and the state of the market as of the valuation date.
- "and without compulsion" establishes that each party is motivated to undertake the transaction, but neither is forced or unduly coerced to complete it.

### Marketing mix

A set of theories, tools and practices to promote a product or service in the market

It is often conceptualized in four categories, known as "4Ps", as follows:

- **Product:** The product should exceed a minimum level of quality and performance.
- **Price:** The pricing should be set taking into **account** of customers' perceived value.

- **Place:** The product should be distributed at the right place.
- **Promotion:** Appropriate communication should be made to convey a consistent message to customers.

Additional "Ps" are sometimes introduced, such as:

- **People;**
- **Process;**
- **Packaging;**
- **Positioning; and**
- **Physical environment.**

### Mark-up

The **excess** of selling price (or total sales **revenue**) above unit **cost** (or total **costs**)

It may be expressed in an absolute amount or a percentage of **cost** representing the extra amount on top of **cost** in reaching the selling price.

### Mark to market

Valuing an **asset** with reference to its current price and other data in the market

### Mass media

Television, press, radio and other communication channels which transmit the message to large segments of the **population** at the same time

### Matching

An **accounting concept** to recognize **costs** or expenses in an organization's profit or loss based on the association between the specific items of income and the **costs** incurred in earning those income

According to the **HKFRS**, **matching** refers to the process of **matching costs** with income, e.g. sales are supported by **costs** of sales and are linked to sales **commission** expenses. However, its application does not override the recognition of items in the **statement of financial position** which do not meet the definition