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random access. In computing, access to data independently of data previously accessed. *Compare* SEQUENTIAL ACCESS.

random access memory (RAM). Computer storage in which the ACCESS TIME for an item of data is independent of the location of the data previously accessed.

random number table. A list of numbers in random order.

random sampling. In an audit context, a method of drawing a sample in which each item in the population, e.g. the purchase invoices for May, has an equal chance of being selected. Random sampling is commonly implemented through the use of RANDOM NUMBER TABLES and may be with replacement or (as is usual in auditing applications) without replacement. *See* SYSTEMATIC RANDOM SAMPLING.

random walk hypothesis. The hypothesis that share prices move independently of previous movements. This is equivalent to the weak form of the EFFICIENT MARKET HYPOTHESIS.

range. A measure of DISPERSION calculated by obtaining the difference between the largest and smallest items in a group of numerical data.

rank correlation. A measure of the degree of relationship between variables listed in order or rank.

rateable value. In the UK, a value placed on all properties subject to RATES. The value is based on a notional rent that the

property could be expected to yield after deducting the cost of repairs.

rate of exchange. The rate (price) at which one good (e.g. a foreign currency) can be converted into another. *See also* FORWARD RATE; SPOT RATE.

rate of interest. The price at which money is lent or borrowed.

rate of return. The relationship between profit and investment. *See also* INTERNAL RATE OF RETURN; RETURN ON INVESTMENT.

rate of return pricing. Basing prices on a planned rate of return on capital employed. It is a variant of FULL COST PRICING and is probably most suitable when prices need to be established on a basis acceptable to a powerful customer (e.g., a government agency).

rates. In the UK, a local tax levied on business property (and formerly on domestic property also). Rates are calculated by multiplying a property's RATEABLE VALUE by a 'rate poundage' (percentage in the £) fixed by each rating authority. Rate poundages vary considerably as between authorities and types of property. Domestic rates are generally regarded as a REGRESSIVE TAX which does not take account of ABILITY TO PAY.

rate support grant (RSG). Previously the main source of local government finance in the UK. It was divided into a domestic relief grant (used to reduce domestic rate bills) and a block grant. The main objective of the RSG was to subsidize local services

by redistributing central taxation to compensate local authorities for differences in spending needs and differences in their ability to raise local revenue from their taxable resources. It has been replaced by the REVENUE SUPPORT GRANT (RSG).

rate variance. *See* PRICE VARIANCE.

rating. A grade given to a company's bonds or loan stocks by a credit rating agency.

ratio scale. *See* MEASUREMENT SCALES.

ratio/ratio analysis. *See* FINANCIAL RATIO.

raw materials. Materials used in manufacture and not yet processed.

readily marketable investments. Investments for which an active market exists, which is both open and accessible, and for which a market value (or some other indicator from which a value may be calculated) is quoted openly. Readily marketable investments may be either CURRENT ASSETS OF FIXED ASSETS, but ED 55 in the UK proposes that only the former should be valued by MARKING TO MARKET.

read only memory (ROM). In computing, storage which can be read or copied but not changed.

read out. In computing, the retrieval of stored data.

real accounts. Those accounts in a ledger which record transactions involving NON-MONETARY ASSETS, e.g. plant and machinery.

real estate. *See* REALTY. Real estate is an American rather than a British term.

realization. Conversion of a non-monetary asset into cash or an account receivable.

realization account. An account used on the dissolution of a partnership. The book value of assets to be sold is transferred

to the debit of realization account and the proceeds of sale are placed to its credit. Any balance is divided among the partners.

realization convention. The convention that increases or decreases in the market values of assets and liabilities are not recognized as gains or losses until the assets are sold or the liabilities paid. The lower of cost or market rule of stock (inventory) valuation may be regarded as an exception to the convention based on PRUDENCE.

UK company law requires that only profits realized at the balance sheet date may be included in the profit and loss account, but realization is defined in accordance with accounting principles that are generally accepted at the time of preparation of the accounts.

See also REVENUE RECOGNITION.

realized profits. In UK company law, all profits, both capital and income, that have been earned by a company. They are not necessarily equal to a company's reported profit, and in particular do not take account of the effects on profit of a revaluation of assets. The Accounting Standards Board has proposed that companies disclose in a note directly below the profit and loss account the amount of their realized profits.

real property. *See* REALTY.

real proprietary capital. The value of the net assets of an enterprise in units of general purchasing power, as in CURRENT PURCHASING POWER ACCOUNTING and RELATIVE PRICE CHANGE ACCOUNTING. *See also* CAPITAL MAINTENANCE CONCEPT.

real rate of interest. A rate of interest after adjustment to allow for inflation.

real terms accounting. *See* RELATIVE PRICE CHANGE ACCOUNTING.

real time processing. In computing, a

system in which data are processed and the results are output almost immediately. *Compare* BATCH PROCESSING.

realty. Immovable property such as land, in contradistinction to PERSONALTY or movable property.

rebate. An allowance from or reduction of a quoted price.

receipt. In relation to money or a good, the act of receiving the amount received or a signed acknowledgement therefor.

receipts and payments account/statement. An account or statement setting out for an accounting period an enterprise's cash receipts and cash payments.

receipts and payments basis. Alternative term for CASH BASIS OF ACCOUNTING (as contrasted with ACCRUALS BASIS).

receivables. Amounts owing to an enterprise whether current (*see* ACCOUNTS RECEIVABLE) or non-current (long-term).

reciprocal. The quotient obtained by dividing any non-zero number into 1.

recognition. Acceptance of a TRANSACTION or other EVENT as one to be included in the accounting records and financial statements.

recognition of fixed assets. *See* FIXED ASSETS.

recognized professional body. In the UK, a professional body (e.g. The Institute of Chartered Accountants in England and Wales, the Law Society) recognized by the Securities and Investments Board (SIB) as a professional body which is permitted to authorize its members to carry out investment business where it does not form part of their main activity. *See also* FINANCIAL SERVICES ACT.

recognized qualifying body. In the UK, an ACCOUNTANCY BODY recognized by the

Secretary of State for Trade and Industry as providing a recognized professional qualification for company AUDITORS. Recognized professional bodies must satisfy specifications relating, inter alia, to entry requirements, theoretical instruction, professional accountancy experience, tests of competence and practical training. The bodies so recognized are the three Institutes of Chartered Accountants in England and Wales, of Scotland and in Ireland, and the Chartered Association of Certified Accountants.

recognized supervisory body. In the UK, an ACCOUNTANCY BODY recognized by the Secretary of State for Trade and Industry for the purpose of overseeing and maintaining the conduct and technical standards of company AUDITORS. The bodies so recognized are the three Institutes of Chartered Accountants in England and Wales, of Scotland and in Ireland, and the Chartered Association of Certified Accountants.

Recommendations on Accounting Principles. Recommendations issued by the Institute of Chartered Accountants in England and Wales from 1942 to 1969. They were not mandatory but had persuasive force. Twenty nine recommendations were issued before they were superseded from the 1970s onwards by Statements of Standard Accounting Practice (SSAPs).

reconciliation statement. A statement explaining the differences between two related accounting records, e.g. an account with a bank as recorded by the bank and by the customer (*see* BANK RECONCILIATION STATEMENT).

reconstruction. A change in the CAPITAL STRUCTURE of a company, involving, for example, a REDUCTION OF CAPITAL, changes in the rights of classes of shareholders, the formation of a new company, with the aim usually of giving the company a fresh start. A reconstruction can be carried out in conjunction with a VOLUNTARY LIQUIDATION.

record. A collection of data treated as one unit.

recourse. The ability to make a claim on a third party if another party should fail to meet an obligation.

recoverable ACT. Advance corporation tax (ACT) which can be set off against the corporation tax liability on past, current or future profits, or against a credit balance on a deferred tax account.

recoverable amount. The greater of the NET REALIZABLE VALUE and NET PRESENT VALUE of an asset. The VALUE TO THE BUSINESS of an asset is the lower of recoverable amount and current REPLACEMENT COST.

redeemable preference shares. See REDEEMABLE SHARES.

redeemable shares. In the UK, shares, whether preference or ordinary, which are specifically redeemable under their terms of issue. Redeemable shares may only be redeemed out of distributable profits or the proceeds of a fresh issue of shares made for the purposes of redemption. In the former case a CAPITAL REDEMPTION RESERVE must be established on redemption.

redemption. The repayment of shares and debentures (stocks and bonds), usually at prearranged amounts and times.

redemption date. The date on which a redeemable security matures.

redemption fund. See SINKING FUND.

redemption premium. An amount in addition to the par value payable on the redemption (repayment) of a debenture or similar security.

redemption price. The price at which a security may be redeemed prior to its maturity date.

redemption yield. A YIELD which takes account not only of periodical returns on an

investment but also of the amount receivable on redemption. See also FLAT YIELD.

red herring. Colloquial US expression for a preliminary PROSPECTUS.

reducing balance depreciation. See DEPRECIATION METHODS.

reduction of capital. The repayment or writing down of a company's share capital, as a result of either an excess of funds without profitable uses or large accumulated losses. See also OWN SHARES.

refinancing. In the USA, the issue of new securities to repay an existing issue.

refunding. See REFINANCING.

regional development grants. In the UK, cash grants by the government to a person or enterprise investing in a DEVELOPMENT AREA. For their accounting treatment see GOVERNMENT GRANTS.

registered auditor. In the UK, a person or firm whose name is inscribed on a statutory register as qualified for appointment as a company AUDITOR. See also RECOGNIZED QUALIFYING BODY; RECOGNIZED SUPERVISORY BODY.

registered company. In the USA, a company registered with the SECURITIES AND EXCHANGE COMMISSION. In the UK, a company incorporated under the Companies Acts. Contrast UNREGISTERED COMPANY.

registered office. In Britain, the official address of a company. The MEMORANDUM OF ASSOCIATION must state whether it is in England, Wales or Scotland.

registered security. A security of which the details of ownership are recorded by the issuer. Compare BEARER SECURITY.

register of charges. In the UK, a STATUTORY BOOK kept by companies. It contains details of all charges created by the company upon its assets (including fixed and

floating charges to secure debentures) and required to be registered with the REGISTRAR OF COMPANIES.

register of debenture holders. In the UK, a record kept by companies of the names and other particulars of their DEBENTURE HOLDERS. There is no statutory requirement to keep such a book, although there may be an obligation to do so under the terms of the debentures.

register of directors and secretaries. In the UK, a STATUTORY BOOK required to be kept by companies, containing particulars of names, addresses, nationalities, business occupations, other directorships and dates of birth.

register of directors' interests. In the UK, a STATUTORY BOOK required to be kept by a company giving details of the interests of the directors in the shares and debentures of the company. The register must be produced at the commencement of the company's annual general meeting and remain open and accessible during the meeting to any person attending the meeting.

register of interests in shares. In the UK, a STATUTORY BOOK required to be kept by public companies. It contains details of interests in shares disclosed to the company by those persons knowingly interested in 3 per cent or more of any class of the voting share capital. The term interest is widely defined for this purpose. Investments of a spouse, minor children and corporate bodies over which the person has control are aggregated with the person's own interests. Persons acting in concert are also covered by the relevant provisions of the Companies Act.

register of members. In the UK, a STATUTORY BOOK required to be kept by companies limited by shares, containing the members' (i.e. shareholders') names and addresses, numbers of shares held, with serial numbers if any, amounts paid or deemed to be paid, and dates of entry

on the register and of ceasing to be a member. The register of members is usually combined in practice with a SHARE LEDGER.

registrar. In the UK, the body appointed by a company to maintain its REGISTER and register transfers of the company's shares.

Registrar of Companies. In Britain, the government officer with whom ANNUAL REPORTS (including financial statements) and other documents must be filed: in Cardiff for companies registered in England and Wales; in Edinburgh for companies registered in Scotland.

registration statement. In the USA, a formal statement, required to be filed with the SECURITIES AND EXCHANGE COMMISSION or other body. It contains financial and other information relating to a proposed sale of securities.

regression. An analysis involving the fitting of an equation to a set of data points, usually by the method of ordinary LEAST SQUARES. Simple linear regression, as used by accountants to determine COST FUNCTIONS, involves the fitting of a linear function between two variables. Multiple regression involves the fitting of a linear function containing two or more variables.

regressive tax. A tax that takes a decreasing proportion of a taxpayer's income (or other tax base) as his or her income rises. The marginal rate of such a tax will always be below the average rate.

regulation of corporate financial reporting. The establishment and enforcement of the rules to be followed by companies in their published financial statements. The rules may relate to conventions of measurement and valuation, to disclosure, or to both. It is possible to have no regulations at all, i.e. preparers of financial statements make their own rules. In practice, a combination of public sector

and private sector regulation is usually found. This is true of both the UK and the USA, whose systems of regulation show significant differences as well as similarities.

In the UK, public sector regulation is carried out through the Companies Acts, which lay down accounting rules and formats. These are by no means comprehensive, however, and they are supplemented by the STATEMENTS OF STANDARD ACCOUNTING PRACTICE (SSAPs) of the former ACCOUNTING STANDARDS COMMITTEE (ASC) and by the FINANCIAL REPORTING STANDARDS (FRSs) of the ACCOUNTING STANDARDS BOARD (ASB). These standards are applicable accounting standards within the terms of the Companies Act 1985 as amended. Companies (other than SMALL COMPANIES) are required to state whether their accounts have been prepared in accordance with applicable accounting standards, and give particulars of any material departures therefrom and the reasons therefor. The requirements of the Companies Acts and most accounting standards cover all companies (although with modifications for small and medium-sized companies) and are supplemented for listed companies by the requirements of the London Stock Exchange.

In the USA, by contrast, state corporation laws are unimportant and the accounting standards-setting body acts under the supervision of a federal government agency. Listed companies and many others come under the jurisdiction of the SECURITIES AND EXCHANGE COMMISSION (SEC), which has statutory power to determine GENERALLY ACCEPTED ACCOUNTING PRINCIPLES. The SEC currently recognizes as a standard-setting body the FINANCIAL ACCOUNTING STANDARDS BOARD (FASB), a body which, unlike its predecessors, the COMMITTEE ON ACCOUNTING PROCEDURE (CAP) and the ACCOUNTING PRINCIPLES BOARD (APB), is not under the control of the US accountancy profession as represented by the American Institute of Certified Public Accountants. The listing requirements of the New York Stock Exchange are also important.

See also ACCOUNTING STANDARDS; STANDARD SETTING.

re-invoicing centre. A tax avoidance device whereby a subsidiary is set up in a TAX HAVEN. The centre purchases goods from one part of a multinational group and sells them to another part, thus recording profits which are taxed at a low tax rate. The goods do not in fact travel physically via the centre.

related company. A term formerly used in UK company legislation which was approximately synonymous with ASSOCIATED COMPANY.

related parties. Two or more parties for whom for all or part of an accounting period (a) one party is able to exercise either direct or indirect control, or significant influence, over the other party or over the assets or resources of the other party, or (b) such parties are subject to common control or significant influence from the same source. Related parties of a company include, for example, its holding company, subsidiaries, fellow subsidiaries, associated companies and directors.

related party transactions. A transfer or granting of benefits or obligations between RELATED PARTIES, irrespective of whether the transactions are recognized in the accounting records or whether consideration passes. In the UK the disclosure of such transactions is governed by company law, stock exchange requirements and ED 46. *See also* ABNORMAL TRANSACTION; NORMAL TRANSACTION.

relational database. A DATABASE system in which the underlying data structure is in the form of a table in which columns correspond to attributes of an item of data and the rows represent specific items.

relative price change accounting. Forms of INFLATION ACCOUNTING that take account of changes in both the GENERAL PRICE LEVEL and in SPECIFIC PRICES. An example can be

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found in FAS 33 in the USA where, after calculation of income (loss) from continuing operations in current cost terms (but without a monetary working capital adjustment or a gearing adjustment), adjustments were made for the gain from the decline in purchasing power of net amounts owed and the excess of the increase in specific prices of non-monetary assets held during the year over the increase in the general price level. Another example is CONTINUOUSLY CONTEMPORARY ACCOUNTING as adapted to take account of movements in the general price level.

Relative price change accounting is based on a financial CAPITAL MAINTENANCE CONCEPT (units of purchasing power).

relative price changes. Changes in the prices of specific goods and services relative to each other, independent of changes in the GENERAL PRICE LEVEL.

relevance. A desirable QUALITATIVE CHARACTERISTIC OF ACCOUNTING INFORMATION. Relevant information is information that is capable of making a difference to a decision by a user. To be relevant, information must be timely and must have either predictive value (*see* PREDICTIVE ABILITY) or feedback value (i.e. be capable of confirming or correcting earlier expectations).

relevant accounts. In the context of DISTRIBUTABLE PROFITS in the UK, the latest set of audited accounts laid before the members of a company. These are normally the last annual accounts, but in certain circumstances may be interim accounts or INITIAL ACCOUNTS.

relevant cost. A cost that in the context of a particular decision has either predictive or feedback value.

relevant income. The income of a CLOSE COMPANY.

relevant range. The range of activity over which budgeted sales and expense

relationships (frequently assumed to be linear) remain valid. The presumption is that the enterprise will not operate outside this range.

reliability. A desirable QUALITATIVE CHARACTERISTIC OF ACCOUNTING INFORMATION. According to STATEMENT OF FINANCIAL ACCOUNTING CONCEPTS No. 2, reliability has three components: verifiability, representational faithfulness and NEUTRALITY. There may be conflicts between verifiability and representational faithfulness and also between reliability and RELEVANCE.

remainderman. In England and Wales and in the USA, the person entitled to real estate on the death of a life-tenant. The Scottish term is FIAR.

remittance. A payment sent by one person or enterprise to another.

remittance advice. A document accompanying a REMITTANCE and specifying the purpose of the payment.

remittance basis. In the UK, taxation of foreign earnings only to the extent that they are received in the UK.

remote access. The use of a computer from a terminal in a different physical location.

remote job entry. Input of data to a computer from a physically remote input device.

remote terminal. A terminal in communication with a computer at a different physical location.

renewal accounting. In the USA, writing off fixed assets to expense.

renewals basis. *See* DEPRECIATION METHODS.

rent. The amount paid periodically for the use of land or buildings. *See also* ECONOMIC RENT.

renunciation, letter of. *See* LETTER OF RENUNCIATION.

re-order level. In INVENTORY CONTROL, the level of inventory (stock) held at which re-ordering becomes necessary.

reorganization. The restructuring of the finances of a company and/or the relationships between the companies in a group.

reorganization costs. The costs of a REORGANIZATION. The establishment of provisions for reorganization after takeovers gives some scope for INCOME SMOOTHING.

repairs and maintenance. Expenditures undertaken to preserve rather than to improve an asset's service potential. Repairs and maintenance expenditure is either written off as a period cost or treated as a product cost.

replacement cost. The cost of replacing an asset. Replacement cost can be interpreted as either the cost of reproduction (i.e. replacement of the physical object) or the cost of equivalent services (*see* MODERN EQUIVALENT ASSET). If these are not identical, the implication is that the assets currently used by the firm are not those it would currently buy in the market. Replacement cost as a method of ASSET VALUATION takes account of changes in SPECIFIC PRICES, produces up-to-date balance sheet figures and matches current revenues with current costs, but is less objective than historical cost.

reporting accountants. The firm of accountants who report on the financial information contained in a PROSPECTUS and who deal with other accounting matters connected with a new issue of securities.

reporting currency. The currency (e.g. pounds sterling, US dollars) which an enterprise employs in its financial statements.

representation, letter of. *See* LETTER OF REPRESENTATION.

reproduction cost. The REPLACEMENT COST of a manufactured item.

required rate of return. The rate of return required by an enterprise on its capital investment projects. *See also* COST OF CAPITAL.

requisition. A written order for specified goods or services.

rescheduling. Postponing the repayment of a debt and/or the interest thereof.

research and development costs. Expenditure on pure research, applied research and development. In UK standard accounting practice (SSAP 13), pure research is defined as original investigation undertaken in order to gain new scientific or technical knowledge and understanding but without any specific practical aims or application; applied research as original investigation undertaken in order to gain new scientific or technical knowledge and directed towards a specific practical aim or objective; and development as the use of scientific or technical knowledge in order to produce new or substantially improved materials, devices, products, processes, systems or services prior to the commencement of commercial production.

SSAP 13 requires that expenditure on pure and applied research (other than that on fixed assets) be written off in the year of expenditure. Development expenditure, as a result of representations made especially by the aerospace industry, is treated more permissively. If it is separately identifiable; represented by a clearly defined project which is technically feasible and commercially viable; the future revenue is expected to outweigh its future costs; and adequate resources for completion exist; it may either be written off immediately or be capitalized and amortized against future benefits. SSAP 13 also requires that the accounting policy on R&D expenditure should be stated and explained and that the total amount of R&D expenditure charged in the profit and loss account should be disclosed, analysed between the current

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year's expenditure and amounts amortized from deferred expenditure. Movements on deferred development expenditure and amounts brought and carried forward must be disclosed. The Companies Act 1985 prohibits the capitalization of research costs but allows the capitalization and amortization of development costs in undefined special circumstances. The Act also requires that an indication of research and development activities be given in the DIRECTORS' REPORT.

In the USA, SFAS 2 differs in three important respects from SSAP 13: it requires the immediate write-off of both research and development costs; it requires a detailed analysis of the costs that are to be regarded as research and development costs; and it makes no distinction between pure and applied research in its definitions.

The accounting treatment in the UK of research and development expenditure costs provides an interesting case study of the conflict between the concepts of PRUDENCE and ACCRUALS and of how the statement in SSAP 2 that prudence should prevail over accruals can be overridden by the POLITICIZATION OF ACCOUNTING standards setting.

Research in Accounting Regulation. A US academic ACCOUNTING JOURNAL published annually by JAI Press since 1987.

Research in Governmental and Nonprofit Accounting. A US academic ACCOUNTING JOURNAL published annually by JAI Press since 1985.

Research in Third World Accounting. An academic ACCOUNTING JOURNAL published annually by JAI Press since 1990.

reservation of title. See ROMALPA CLAUSE.

reserve accounting. The practice of passing extraordinary and prior year items through reserves rather than through the profit and loss account. Reserve accounting has diminished in the UK in recent years, a trend reinforced by SSAP 6.

reserve fund. In UK company accounting, a RESERVE represented by an earmarked asset (usually cash or investments).

reserve liability. In the UK, an amount outstanding on a partly paid share that by special resolution of the company cannot be called up except on a winding-up.

reserve on consolidation. In the UK, NEGATIVE GOODWILL transferred to reserve.

reserve recognition accounting. See OIL AND GAS ACCOUNTING.

reserves. In UK company accounting, those items of OWNERS' EQUITY that arise from SHARE PREMIUMS and other capital transactions, the retention of profits and the upward revaluation of assets. Reserves should not be confused with PROVISIONS. Reserves are not usually represented by earmarked assets. If they are, they are known as RESERVE FUNDS. The Companies Act 1948, but not subsequent Acts, divided reserves into CAPITAL RESERVES and REVENUE RESERVES, and these terms are still sometimes used. The Companies Act 1985 distinguishes between DISTRIBUTABLE RESERVES and UNDISTRIBUTABLE RESERVES. The BALANCE SHEET FORMATS require the separate disclosure of share premium account, REVALUATION RESERVE, other reserves (including CAPITAL REDEMPTION RESERVE, reserve for OWN SHARES, and reserves provided for by the articles of association) and the balance on PROFIT AND LOSS ACCOUNT. Reserves of whatever type can be converted into share capital by means of a BONUS ISSUE.

In public sector accounting, a reserve is a fraction of a cash funding allocation held back to meet inflation or the cash needs of a future commitment. Thus public sector reserves, unlike those of companies, are usually represented by cash.

See also SECRET RESERVES; STATEMENT OF MOVEMENT ON RESERVES.

residence. The place where a person lives or is deemed to live for taxation or exchange control purpose.

residual equity. That group of claimants in a company whose rights are superseded by all other claimants (normally the ordinary shareholders or common stockholders).

residual income. The net income of an INVESTMENT CENTRE, less the imputed interest on the net assets invested in the centre. It can be used as an alternative measure of the performance of the centre to RETURN ON INVESTMENT (ROI). Use of residual income implies that the goal is not the maximization of ROI but the maximization of return in excess of minimum desired ROI (i.e. residual income has much the same relationship to ROI as NET PRESENT VALUE has to INTERNAL RATE OF RETURN).

residual value. The value, actual or estimated, of a fixed asset at the end of its economic life. In practice it is often assumed to be zero.

resolution. A decision by a meeting of shareholders or directors. *See also* EXTRAORDINARY RESOLUTION; ORDINARY RESOLUTION; SPECIAL RESOLUTION.

response time. In computing, the time taken between a command from a user and the reply from the computer.

responsibility accounting. A system of accounting in which RESPONSIBILITY CENTRES are established throughout an organization and individual managers are held responsible for costs (COST CENTRES), revenues and costs (PROFIT CENTRES) or revenues, costs and investments (INVESTMENT CENTRES).

responsibility centre. An organizational unit accountable for its performance (e.g. for costs, revenues, investment) to a higher authority. *See also* COST CENTRE; PROFIT CENTRE; INVESTMENT CENTRE.

restricted funds. In relation to a charity, funds subject to specific conditions binding on the trustees and usually imposed by the donor.

restricted surplus. US term for UK UNDISTRIBUTABLE RESERVES.

retail inventory method. A method of INVENTORY VALUATION used by retail stores in which stock is taken at retail price and then reduced to cost price by the use of mark-up percentages.

retail price index (RPI). A PRICE INDEX which attempts to measure the retail prices of goods and services purchased by the average household. In the UK, the RPI is compiled and published monthly by the Department of Employment. The RPI is one measure of the rate of inflation. *See also* CONSUMER PRICE INDEX; TAX AND PRICE INDEX.

retained earnings. *See* RETAINED PROFITS.

retained profits. Profits not distributed to shareholders but reinvested in a company. *See also* COST OF CAPITAL.

retention of title. *See* ROMALPA CLAUSE.

retrieval. In computing, searching for, locating, and reading out data.

return on capital employed (ROCE). *See* RETURN ON INVESTMENT (ROI).

return on investment (ROI). The relationship between profit and investment, used as a measure of performance of an INVESTMENT CENTRE (which may be a division, a company or a group of companies). Return on investment can be analysed as follows:

$$\frac{\text{sales}}{\text{investment}} \times \frac{\text{profit}}{\text{sales}} = \frac{\text{profit}}{\text{investment}}$$

Such a breakdown is of great use for internal performance measurement but runs into difficulties for a group of companies with many ASSOCIATED COMPANIES, since their sales are not included in group turnover.

Both 'profit' and 'investment' need to

be defined carefully and consistently. A number of investment bases are possible, e.g. total assets available or employed; total assets net of current liabilities; shareholders' funds (i.e. total assets less total liabilities). The last is of interest to owners but is not a measure of managerial performance. Profit should be measured in a manner consistent with the investment base. In particular, it is usual to take a profit figure before interest and tax in order to separate managerial performance from the effects of different capital structures and tax rates. Exceptional, extraordinary and prior year items are also excluded.

The assets included in the investment base may be valued at depreciated historical cost (the most common practice), gross historical cost, net replacement cost, gross replacement cost, net realizable value, or net present value. If net rather than gross assets are used conventional DEPRECIATION METHODS can give misleading results which, it is argued, can be avoided by the use of compound interest depreciation methods. (But they are not used in practice.)

In order to distinguish good managers from good divisions, a manager should be judged against a budget target rather than against other investment centres.

An alternative measure of the performance of an investment centre is RESIDUAL INCOME.

returns. See RETURNS INWARDS; RETURNS OUTWARDS.

returns inwards. Sales returns, i.e. goods sold but then returned by one enterprise to another.

returns inwards book. A book of original entry in which RETURNS INWARDS are recorded. Each return is posted to a debtor's account and total returns are posted periodically to the debtors ledger control account and returns inwards accounts in the general ledger.

returns outwards. Purchases returns, i.e. goods purchased but then returned by one enterprise to another.

returns outwards book. A book of original entry in which RETURNS OUTWARDS are recorded. Each return is posted to a creditor's account and total returns are posted periodically to the creditors ledger control and returns outwards accounts in the general ledger.

revaluation. The writing-up of a fixed asset to its current market value. Revaluations are not permitted under US generally accepted accounting principles but have always been a part of UK accounting practice and are expressly permitted under the ALTERNATIVE ACCOUNTING RULES of the Companies Act.

ED 51 recommends the use of OPEN MARKET VALUES except where these are not practicable, in which case depreciated net current replacement cost should be used.

revaluation account. An account used in PARTNERSHIP ACCOUNTS when assets are revalued on the admission, death or retirement of a partner. The purpose of the account is to recognize these events on a current value rather than an historical cost basis.

revaluation reserve. A RESERVE arising on the revaluation of fixed assets. ED 51 recommends that, in so far as it relates to fixed assets, the balance on the revaluation reserve should at any time equal not more than the sum of unrealized and uncanceled amounts in respect of fixed assets carried at a valuation and currently in use by the enterprise. PERMANENT DIMINUTIONS IN VALUE of a revalued fixed asset require a transfer from revaluation reserve to PROFIT AND LOSS ACCOUNT RESERVE. Such a transfer is also required on the disposal of a revalued fixed asset. Under UK company law a revaluation reserve may not be used to write off goodwill on consolidation.

revenue. Amounts earned by trading (sales, turnover), providing services (fees) or by other activities (e.g. investing).

revenue account. The equivalent of a profit and loss account or income and

expenditure account in public sector accounting.

revenue expenditure. Expenditure on items expected to affect only the current accounting period and therefore written off completely to profit and loss account in the accounting period in which it is made. The dividing line between revenue expenditure and CAPITAL EXPENDITURE is not always easy to draw.

revenue recognition. Recognizing and recording revenue in the accounts. It is necessary to decide when revenue arises and how much of it is to be recognized. In principle revenue can be recognized at the point of purchase of a good, at the point of sale, at the point when cash is collected, or at any intermediate point. In practice, recognition depends upon the extent to which the services to be provided by the good have been performed and whether cash or a claim to cash susceptible to objective measurement has been received. In most cases this means recognition of revenue at the point of sale. Examples of exceptions are LONG-TERM CONTRACT WORK IN PROGRESS (where revenue may be recognized during production) and where debt collection is doubtful (in which case revenue may be recognized on collection in cash).

Unrealized HOLDING GAINS and losses may occur between the point of purchase and the point of sale. Because of PRUDENCE, conventional accounting recognizes unrealized holding losses (as in the lower of cost or market rule) but not unrealized holding gains.

See also REALIZATION CONVENTION.

revenue reserve. In UK company accounting, any RESERVE that is not a CAPITAL RESERVE.

revenue statement. *See* REVENUE ACCOUNT.

revenue support grant (RSG). In the UK, a contribution made out of central taxation revenues towards the costs of local authority services. The objectives of the RSG are to increase geographical equity by enabling

the same level of local tax to be set throughout the country for the same standard of service; to contribute to costs imposed on local authorities by national legislation; to make local taxation more progressive (most local taxes tend to be regressive); and to reduce the level of taxes levied locally. *See also* RATE SUPPORT GRANT.

revenue transactions. TRANSACTIONS involving items of current revenue and expenditure.

reverse takeover. The takeover of a larger company by a smaller one or of a listed company by an unlisted one.

reversing entries. Entries made at the beginning of a period to write back adjustments (for prepayments, accrued expenses etc.) made at the end of the previous period.

reverse yield gap. *See* YIELD GAP.

reversion. A right to property that will fall into the possession of some person after the expiration of a grant of that property for a limited period to another person, or on the occurrence of some particular event.

review. An examination of a company's accounts which falls short of a full STATUTORY AUDIT. It has been suggested as suitable for SMALL COMPANIES.

Review Panel. *See* FINANCIAL REPORTING REVIEW PANEL.

revolving loan. A loan with a variable interest rate. Both the amount of the loan and the rate of interest are periodically renegotiated

Richardson Report. A report on inflation accounting issued in New Zealand in 1976. Its recommendations were similar to those of the UK Report of the SANDILANDS COMMITTEE and the Australian MATHEWS REPORT but it recommended a different approach on monetary items.

Rico Act. Racketeer Influenced and Corrupt Organizations Act (USA).

rights issue. An issue of shares in which the existing shareholders have a pre-emptive right to subscribe for the new shares. The offer price is usually fixed a little below the current market price. The rights can be sold if the shareholder does not wish to subscribe. If the shareholder fails to do so it is normal for the company to sell the rights on the shareholder's behalf. A shareholder should in principle be equally well off whether or not he or she decides to subscribe.

risk. A situation in which future events are not known with certainty but an array of alternative outcomes and their probabilities can be estimated. It can be distinguished from UNCERTAINTY where no such probabilities can be estimated. *See also* AUDIT RISK; BUSINESS RISK; FINANCIAL RISK; NON-SYSTEMATIC RISK; SYSTEMATIC RISK.

risk aversion. A tendency to avoid risk. A risk averter is a person with a diminishing MARGINAL UTILITY of money who requires a higher expected return as compensation for an increase in risk. It is generally thought that most people are risk averse rather than 'risk lovers' or 'risk neutral'.

risk capital. Capital subscribed to a company usually in the form of ORDINARY SHARES in the hope of high returns but also with high expected risks.

risk class. A class of investments deemed to have the same risk.

risk congruence. Sharing of the same attitudes towards risk on the part of superiors and their subordinates.

risk-free rate of return. The RATE OF RETURN obtained from a security on which there is no risk of capital loss. The rate of return on government securities is an approximation of such a risk-free rate.

risk index. A measure of the RISK of an

investment, usually based on the dispersion of returns from the investment (e.g. the VARIANCE of the returns).

risk premium. The difference between the expected rate of return on a security and the RISK-FREE RATE OF RETURN.

rogue software. SOFTWARE not authorized by or under the control of the operators of a computer system. *See also* COMPUTER VIRUS; LOGIC BOMB; TIME BOMB; TROJAN HORSE; WORM.

rolled-up interest. Interest all of which only becomes payable on the maturity of the security on which it is payable. Interest may be rolled up in an attempt for tax purposes to gain treatment for it as a capital gain rather than income.

rolling budget. A BUDGET which is extended one month (for example) with the first month correspondingly deleted.

rolling GAAP. In the context of BOND COVENANTS, generally accepted accounting principles adjusted continuously rather than 'frozen' as at the date of entering into the covenant. *Compare* FROZEN GAAP.

roll-over relief. A tax relief that allows a capital gain realized on the sale of a fixed asset to be deducted for tax purposes from the cost of the replacement asset. The effect is to postpone, sometimes indefinitely, the payment of capital gains tax. If assets are always replaced, the tax on capital gains (part of corporation tax in the case of UK companies) will never be paid, especially in times of rising prices.

Romalpa clause. In the UK, any clause in a contract for the sale or supply of goods whereby the supplier seeks to obtain priority over other creditors of the purchase by retaining, or purporting to retain, the title or other interest to the goods supplied until the debt has been paid. The legal effects of such a clause are uncertain but of great importance to, among others,

accountants and auditors since they affect the ownership of stock-in-trade (inventories). Problems of SUBSTANCE OVER FORM arise if it is thought that the commercial substance is that stocks subject to such a clause are the assets of the purchaser (if the latter is a going concern).

Rooker-Wise amendment. A resolution of the British Parliament in 1977 that income tax allowances should be automatically indexed unless Parliament decides otherwise.

routine. In computing, a set of instructions to perform a task separated from the rest of a program.

royal charter. In the UK, a document from the Crown creating a corporate entity. Commercial companies are longer incorporated in this way but all the major UK professional accountancy bodies now have royal charters as do many other professional bodies, universities and similar institutions. It was the incorporation of the Scottish bodies by royal charter in the 1850s that lead to their members being called CHARTERED ACCOUNTANTS.

Royal Mail case. English legal case (1931) which ended the respectability of SECRET RESERVES and drew attention to the need for CONSOLIDATED FINANCIAL STATEMENTS.

royalty. A payment made for the privilege of exercising a right, e.g. to extract minerals or use COPYRIGHT material. The amount of royalties paid usually depends upon, for example, the number of tons extracted and the number of books sold.

rule of 78. A method of allocating finance charges sometimes used in HIRE PURCHASE AND INSTALMENT SALE ACCOUNTING and in LEASE ACCOUNTING. It is based on the sum of the digits 1 to 12 and provides an approximation to the figures provided by the use of actuarial or COMPOUND INTEREST methods.

run. In computing, the execution of a program.

running costs. The recurrent costs of an operation in contrast to the CAPITAL COSTS incurred to start the operation.

running yield. *See* FLAT YIELD.