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Terminology Department

American Institute of Accountants. Special Committee on Terminology

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Terminology Department

CONDUCTED BY THE SPECIAL COMMITTEE ON TERMINOLOGY OF THE AMERICAN
INSTITUTE OF ACCOUNTANTS

The special committee on terminology submits the following tentative definitions for consideration and criticism. Comments from readers will be welcome. Letters may be addressed to the committee in care of THE JOURNAL OF ACCOUNTANCY.

CORPORATION—ELEMOSYNARY:

In general, a corporation organized, not for profit but for the purpose of giving assistance to those in need thereof. Perhaps the most general example in this country is a free hospital.

In particular, Blackstone defines such organizations as corporations constituted for the perpetual distribution of the free alms, or bounty, of the founder of them to such persons as he has directed.

CORPORATION—MUNICIPAL:

Towns and cities in the United States act under certificates of incorporation issued under the laws of the several states. These are municipal corporations.

CORPORATION—PERSONAL-SERVICE:

Under the federal income-tax laws certain corporations are described as personal-service corporations. These are corporations not engaged in buying, selling or manufacturing merchandise, and not gaining their income from investment of money, but from personal services rendered by the officers and employees of the corporation. There may be some invested capital, but not so much that it is a major source of income. Income-tax laws, regulations and decisions set forth the limitations within which a corporation may be classed as a personal-service corporation.

CORPORATION—RELIGIOUS:

A corporation formed to promote some religious object or to own property devoted to religious uses.

CORPORATIONS—LAY:

Bodies politic; (1) civil for temporal purposes, and (2) eleemosynary for charitable purposes (Dawson).

COMPANY—PROPRIETARY:

Another name for "controlling company" or "parent company." A proprietary company is not an operating company (Munn).

CORPORATION—NON-STOCK MONEYED:

A savings bank, building-and-loan association, credit union, or related business engaged in some phase of banking and organized without shares of stock, the profits belonging to the depositors. Non-stock banking corporations are also known as mutual associations (Munn).

Terminology Department

COMPANY—FINANCE:

A term used to denote several different types of institution. It is sometimes employed in this country to denote (1) a holding company, (2) a commercial credit company. In England the term usually refers to a company dealing in corporate securities (Munn).

CORPORATION—FINANCIAL:

The term includes banks, trust companies, insurance companies, building-and-loan associations and other similar corporations (Bienvenu).

CORPORATION—PUBLIC:

One created for the purpose of local government as, for example, a municipality.

COMPANY:

In addition to the terms already defined, both in this issue and in the *JOURNAL* for January, 1929, the following expressions are sometimes used in a more or less colloquial manner, the adjective in each case indicating the nature of the business in which the company is engaged. They are not established terms having a special technical meaning. Company—agricultural, industrial, indemnity, insurance, manufacturing, mining, mutual, securities, security, store, surety, trading.

CORPORATION:

In addition to the terms already defined, both in this issue and in the *JOURNAL* for January, 1929, the following expressions are sometimes used in a more or less colloquial manner, the adjective in each case indicating the nature of the business in which the corporation is engaged. They are not established terms having a special technical meaning. Corporation—commercial, membership, moneyed, public, system.

A correspondent asks for examples of a "revolving fund" as defined in the *JOURNAL* for September, 1928.

One of the examples most frequently encountered is a petty-cash fund kept on the imprest system, in which disbursements are made from time to time. When the fund becomes depleted the amount spent is replaced from a general fund and the actual cash on hand is restored to its original amount.

Another instance is found in revolving funds established to assist college students. In this case money is given to the fund and sums are lent to assist students. When these loans are repaid the money returns to the fund, which is thus kept constantly revolving.

There have been proposed farm-relief funds, whereby the government would set up a fund, lending money on crops, receiving the money back on sale of the crops, relending it, and so ad infinitum. This would be a revolving fund.

The committee is, perhaps, entitled to feel some pride or satisfaction in having received its first anonymous criticism. Usually such letters are undeserving of notice, but in this case the criticism appears to be honest and the point raised is interesting. The letter reads as follows:

Permit me to disagree with your correspondent in the October issue of *THE JOURNAL OF ACCOUNTANCY* wherein he says that "the term 'cost

of goods sold' is preferable to 'cost of sales.'" It seems to me that there is a very distinct difference in the use of these two terms.

Cost of *goods* sold is the cost of raw materials, labor and manufacturing expenses, the actual purchase and manufacturing cost of the *goods* or merchandise sold, with due adjustments in the inventory, the ordinary form of manufacturing account, or in the case of a trading concern the purchase cost of the merchandise sold.

Cost of sales is applicable only to industries where no *goods* or merchandise is bought for sale, and where the profits are from sources other than sales in the ordinary sense of the word, such as dyeing establishments, laundries, garages, automobile-repairs shops and similar quasi-service businesses. Cost of sales in my opinion is substantially the same as production cost and should be used in the profit-and-loss statement to show the cost of production in non-manufacturing or trading concerns.

The committee feels that there is some ground for this criticism. When considering the definitions referred to, it had more particularly in mind the manufacturer and the merchant, and may have failed to give sufficient consideration to what the treasury department has taught us to call personal-service enterprises.

The committee has no desire or intention to hedge; it adheres to its definitions as being proper in the classes mentioned above but is willing to add a paragraph to the definition of "Cost of goods sold," as follows:

In businesses where services rendered constitute the principal basis of charges to customers, such as laundries, cleaners, garages and undertakers, in which it is not unusual to speak of the transactions as "sales," the use of the expression "Cost of sales" is preferable.

The committee has received the following inquiry:

With the object in view of adopting progressive terminology in our reports and conforming to the best accounting practice at present, we are anxious to obtain an expression from your committee concerning the following items. Both the usual technical designations and the various designations which have occurred to us are given.

<i>Statement or account</i>	<i>Terminology</i>
1. Balance-sheet	(a) Balance-sheet (b) Statement of assets, liabilities and capital
2. Profit-and-loss statement	(a) Profit-and-loss account (b) Profit-and-loss statement (c) Statement of operations
3. Accounts receivable	(a) Trade debtors (b) Customers' accounts receivable (c) Accounts receivable
4. Reserve for bad debts	(a) Provision for bad debts (b) Allowance for bad debts (c) Reserve for bad debts
5. Reserve for depreciation	(a) Provision for depreciation (b) Allowance for depreciation (c) Reserve for depreciation.

Most of the questions raised have been dealt with by the committee, but the members are glad to reply and to express their views.

1. **BALANCE-SHEET:**

(a) This was defined at some length in the *JOURNAL* for August, 1923, as a statement prepared from books kept by double entry. The committee is of the opinion that its use should be restricted to such statements.

(b) Statement of assets, liabilities and capital is similar to a statement of financial condition, defined in January, 1928. It may be prepared from books kept on the single-entry system or from other sources, and inasmuch as it lacks the support behind a balance-sheet, it should be verified even more carefully than the more formal statement.

2. PROFIT-AND-LOSS STATEMENT:

(a) The profit-and-loss account is, strictly speaking, the account which is written in the ledger, and is frequently changed in its arrangement when presented as a formal statement. The use of the term should be so limited.

(b) "Profit-and-loss statement" is a proper description. A detailed definition appeared in the JOURNAL for September, 1923.

(c) Statement of operations is similar to an operating statement, defined in the JOURNAL for January, 1928, and constitutes one portion of a profit-and-loss statement.

The committee recommends the use of the expression "Profit-and-loss statement" or "Statement of the profit-and-loss account."

3. ACCOUNTS RECEIVABLE:

(a) "Trade debtors" is too broad an expression if used by itself, for it may include debtors who owe on open account, either secured or unsecured, or notes receivable, each of which items should be shown separately.

(b) and (c) Customers' accounts receivable and accounts receivable are proper terms, either of which may be used, depending upon the nature of the business, the former being the wording suggested in the federal reserve bulletin on a uniform balance-sheet. Some accountants add the word "trade" (usually in brackets) to emphasize the fact that the assets arise through current business and are not in the nature of advances, which should appear separately.

4. RESERVE FOR BAD DEBTS:

(a) Provision for bad debts, (b) Allowance for bad debts, (c) Reserve for bad debts. A definition of "allowance" appeared in the JOURNAL for October, 1922, and the committee then expressed its opinion that the use of the term "allowance" as synonymous with "reserve" or "provision" should be discouraged.

A further definition of "allowance" appeared in the JOURNAL for August, 1928.

"Provision" and "reserve" were defined at length in the JOURNAL for October, 1922, and the committee, while leaning towards a preference for "Provision for bad debts," feels that no adverse criticism could be made against the term "Reserve for bad debts."

The term "provision" may well be used also for an amount set up to cover liabilities known to exist, although the exact amount will not be ascertained until a future date, or for disputed liabilities arising out of past transactions.

5. RESERVE FOR DEPRECIATION:

(a) Provision for depreciation, (b) Allowance for depreciation, (c) Reserve for depreciation. The committee believes that in this case the expression "Reserve for depreciation" is so generally used and understood by bankers, the business world and accountants that its use should be continued.