

3-1929

Terminology Department

American Institute of Accountants. Special Committee on Terminology

Follow this and additional works at: <https://egrove.olemiss.edu/jofa>



Part of the [Accounting Commons](#)

Recommended Citation

American Institute of Accountants. Special Committee on Terminology (1929) "Terminology Department," *Journal of Accountancy*. Vol. 47 : Iss. 3 , Article 7.

Available at: <https://egrove.olemiss.edu/jofa/vol47/iss3/7>

This Article is brought to you for free and open access by the Archival Digital Accounting Collection at eGrove. It has been accepted for inclusion in Journal of Accountancy by an authorized editor of eGrove. For more information, please contact egrove@olemiss.edu.

Terminology Department

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

[NOTE:—The special committee on terminology submits its tentative definitions for the consideration and criticism of readers of the JOURNAL. Comments will be welcome. Letters may be addressed to the committee in care of THE JOURNAL OF ACCOUNTANCY.]

“Balance-sheet—pro forma” was defined by the committee in 1923 as “A balance-sheet containing suppositious headings and sometimes figures, used as a basis for illustrating a principle or for other purposes.”

This definition covered the case at that time, but as the profession advances new words are coined and new meanings are given to old words to meet the fresh requirements—a sure sign of life.

Among such new meanings the committee finds that the expression “pro forma balance-sheet” as used in financial circles has acquired for itself a new meaning, and the following definition is submitted:

PRO FORMA BALANCE-SHEET:

A special technical meaning is being given to this term, and has been so far accepted and used by bankers and accountants that, notwithstanding its philological faults, it seems likely to become fixed in the accounting terminology. It means a balance-sheet, based on audit of existing accounts, and giving retroactive effect to financing, mergers, consolidations or contracts that have either been consummated after the date of audit but before the actual preparation of the balance-sheet, or, though not yet consummated, are covered by binding contracts made with responsible parties. Such balance-sheets may be certified.

DIVIDENDS ON PREFERRED STOCK:

The rights of preferred stock have attracted so much attention of late, owing to two important decisions which are, on the surface, contradictory, that the committee feels warranted in dealing with the subject.

In the case of the Southern Railway the supreme court of appeals of Virginia sustained the judgment of the lower court, which had held that if directors in good faith failed to declare dividends on preferred stock, when the earnings were sufficient, and used those earnings for other corporate purposes the stockholders could not claim such dividends.

In the case of the Wabash Railway, the U. S. circuit court of appeals held that in such circumstances the earnings of each year, if sufficient, constituted a dividend credit which at some future time might be paid, and the court held that no dividends could be paid on any junior stocks until these earned dividends had been paid on the non-cumulative preferred stock.

The difference between these decisions is due entirely to the differences in the charters. The Wabash charter provides that these preferred stockholders shall be *entitled* to specified dividends when earned, while the charter of the Southern Railway carefully leaves the rights of the holders of preferred stock to be determined at the discretion of the directors. The non-cumulative Wabash stock was not fully non-cumulative, but had a limited degree of cumulative right.

A letter recently received from one of the institutions devoted to the teaching of higher accountancy leads the committee to feel that its labors have not been entirely in vain, for it comes from a professor who expresses interest in the work and makes a valuable suggestion.

The writer expresses himself as follows:

“When a series of definitions is published as in the December number of *THE JOURNAL OF ACCOUNTANCY*, I presume they are intended to include all accounts that come from a single idea. Thus the idea of dividends causes the existence of several different accounts. I suppose that the dividend definitions in the December *JOURNAL* are intended to include all dividend accounts.”

The committee regrets to say that the correspondent's presumptions are premature and that his suppositions are too optimistic. It has been found impossible always to include in one issue of the *JOURNAL* all technical terms relating to a given idea. Sometimes limits of space preclude the publishing of an entire group in one number; sometimes we find that, notwithstanding a microscopic search, some words have been omitted, e.g., “Dividends—declared.” However, the usual cause for such omissions is the method pursued by the committee. The practice is to prepare a list of related words, such as “dividends” and the derivations, and to send this to one member who sketches the definitions. These sketches are sent to the other committee-men who approve, amend or disapprove each definition. In the case of disapproval, discussion ensues and unanimity may not be effected in time for publication in the forthcoming issue of the magazine. Many such words are now under consideration.

The correspondent calls attention to the omission of “Dividends—payable” which, oddly enough, is due to the second cause mentioned above. The following is suggested:

DIVIDENDS—PAYABLE:

Dividends which have been declared and for which means of payment are available. Such dividends form a current liability.

The correspondent refers to the absence of a definition of “Reserve for bad debts.” In return, the committee begs to refer him to the issues of the *JOURNAL* appearing in October, 1922, and in August, 1928, in each of which this term is discussed.

The committee hopes that it may soon be possible to publish in pamphlet form the tentative definitions which have appeared during the past six or seven years.

Another correspondent writes as follows:

“Your January, 1929, edition, page 53, explains: ‘Statement of financial condition: In accounting this is a statement of assets and liabilities, in which special attention is given to the relation of current assets to current liabilities.’ The dictionary defines a statement to be a summary of facts; financial as relating to monetary affairs; condition, the state in which a thing *exists*: the balance-sheet as ‘A statement in tabular form to show assets and liabilities, profit and loss.’ Executives often refer to a balance-sheet as a schedule of open accounts, or a list of quantities, signifying a remainder. I suggest that ‘statement of financial condition’ replace the incongruous expressions ‘statement of affairs’ and ‘balance-sheet.’

Terminology Department

Statement of current assets and liabilities is, per se, an adequate title. Accounts receivable consist of customers' accounts; therefore use the self-explanatory term. Likewise the caption 'accounts payable' is better denoted 'creditors' accounts.'"

This letter brings out some points which have not been enlarged upon by the committee:

(1) If the technical meanings of terms used by accountants were to be found in a dictionary, the work of the committee would be unnecessary and useless.

(2) While the members of the committee have been in practice for many years in many places, no one of them has had such experience as would lead him to say that "Executives often speak of a balance-sheet as a schedule of open accounts."

(3) The committee is unable to see any incongruity in the expressions "statement of affairs" and "balance-sheet." The term "balance-sheet" is so firmly established that it is impossible and undesirable to attempt to abandon it. The inadequacy of the expression suggested is evident on remembering that a balance-sheet shows capital and surplus which are not usually considered assets or liabilities and, very frequently, it shows both assets and liabilities which are not current.

(4) "Accounts receivable" and "accounts payable" are generic terms and unless qualified may properly include items not due by or to customers.

(5) The province of the committee is to give the present technical meanings of accounting terms, as used in the best accounting practice, not to attempt to dictate new and strange terms, no matter how desirable they may appear. If the terms advocated by this correspondent had been in general use the committee would have been glad to define them; but they are not in common use.