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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.

### *PROFITS—ACCRUED:*

When profits arise through appreciation in the value of assets, particularly in the value of securities owned, they are usually either not taken up in the profit-and-loss account until the assets are sold or are taken up only at intervals; the accretions of value not taken up on the books are accrued profits. (See paper profits.)

### *PROFITS—ACCUMULATED:*

Profits arising in two or more periods, not distributed nor paid out as dividends.

### *PROFITS—ANTICIPATED:*

Profits taken up in advance of their actual realization, such as profits on sales contracted for but not yet consummated, and profits on instalment sales represented by instalments not yet due or collected.

### *PROFITS—APPROPRIATED:*

Profits set aside, by resolution of boards of directors, vote of stockholders, or owners of a business, to be applied to some specific purpose, such as retirement of preferred stock, extension of business, etc.

### *PROFITS—BOOK:*

Profits as shown by book figures; these may be based on book valuations of assets and book figures for liabilities and reserves.

### *PROFITS—CAPITALIZED:*

Profits that have been separated from the surplus account and added to capital accounts. In the accounts of a corporation this may take the form of an increase in the number of shares of capital stock (stock dividend), the establishment of a capital surplus, or, if the stock be without par value, of an increase in the money equivalent of the existing shares without an increase in their number, or a combination of these changes.

### *PROFITS—CONTINGENT:*

Profits that may or may not be realized, depending upon some future contingency, not fully controllable.

### *PROFITS—DEPARTMENTAL:*

The profits of a department of a business; not net profit, but profit subject to charges applied against the entire profit of the business. If this profit should include any profit on work done for, or goods transferred to, other depart-

ments of the same corporation the same conditions apply to the accounts of the whole corporation as to the accounts of a consolidation where there are intercompany profits; that is to say, "interdepartmental profits" should be eliminated so far as they are represented by merchandise still owned by the corporation or partnership.

*PROFITS—DISTRIBUTED:*

Profits that have been actually paid to the persons entitled to them; a term applicable to the profits of partnerships.

*PROFITS—DISTRIBUTIVE:*

The profits of a business subject to distribution among those entitled to them. This term is used with reference to statements showing not only the amount of profit, but also the amount distributable to each recipient.

*PROFITS—EXTRAORDINARY:*

Profits arising from some special condition, not gained in the ordinary and orderly conduct of business.

*PROFITS—GROSS:*

Profits computed before the deduction of general expenses. There is no definite line, applicable to all kinds of business, dividing the expenses between those applicable before and after computing gross profits, but in general those costs and expenses directly incurred in executing a transaction are deducted before gross profit is computed. A reasonably correct line of division is to be found in a rule that only those expenses that would not have been incurred in the absence of the transaction should be deducted before computing gross profit.

*PROFIT—INFLATED:*

Profit that is overstated.

*PROFITS—INTERCOMPANY:*

In the preparation of consolidated accounts of two or more companies that have transactions among themselves one of the companies may have made profit on sales of assets to another of the consolidating companies; if the assets are still owned within the circle of consolidating companies the profit so made is called "intercompany profit" and should be eliminated in the consolidated accounts. Literally, all profits made by one of the companies on sales to another are intercompany profit, but if the purchasing company has in turn sold the assets outside of the consolidation the "intercompany" profit is immaterial and even if taken into account would disappear on consolidation.

*PROFITS—NET:*

Profits after deduction of all expenses of every kind, but not after any deduction for dividends nor after any appropriation of profits for purposes other than payment of expenses, nor after capitalization of any part of the profit.

*PROFIT—OPERATING:*

Profit arising from the regular operation of an enterprise engaged in performing physical services (public utilities, etc.) excluding income from other sources and excluding expenses other than those of direct operation.

***PROFITS—PAPER:***

Profits apparently gained by reason of appreciation of value of unsold assets; applied mostly to gains on marketable securities. Often the profit can not be wholly realized, since an offering for sale of the assets would depress the market price.

***PROFITS—REALIZED:***

(See "Paper profits.") Profits converted into absolute values by sale of the assets on which the profit arises, or in some other way.

***PROFITS—SELLING:***

See "Profit—trading."

***PROFITS—TAXABLE:***

Under the several income-tax and profits-tax laws of the federal government and of the states, highly technical rules are given for computing profits subject to taxation; the profits so computed vary from the profits computed under methods approved by accountants, being sometimes greater, sometimes less. Taxable profits based on given transactions may, in the same year, be one amount for the purpose of federal taxation and a different amount for the purpose of state taxation; and in each case the taxable profit for a corporation may differ from that computed for an individual. "Taxable profit," therefore, is the profit that is taxable under the particular tax law that may be applicable.

***PROFIT—TRADING:***

The profit on selling goods purchased for the purpose of resale. That is to say, profits on sales, after the application of direct cost of goods sold and direct selling expenses, but before application of other expenses. Cost of physical delivery of goods sold, if borne by seller, should be deducted before computing trading profit. See "Selling profit."

***PROFIT—UNDISTRIBUTED:***

Profit that has been realized and may have been divided on paper and credited to the accounts of partners in an enterprise, but has not actually been paid to them.

***PROFIT—UNDIVIDED:***

Profit that has been realized but neither paid to partners nor credited to their accounts. Some corporations use this term to describe profits that have not yet been transferred formally to surplus account.

***PROFIT—UNDRAWN:***

A term used in accounting for individual enterprises and partnerships, especially where the books are so kept that profits are not divided by entry transferring them to the credit of partners, but partners' drawings are charged directly against the profit-and-loss balance. This balance consists of "Undrawn profits."

***PROFITS—UNIT:***

Where the output of a business can be measured by units and the profit on a given kind of units can be separately determined, the quotient obtained by dividing the total profit by the number of units sold is called the unit profit.