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Accounting terminology: preliminary report of a Special Committee on Terminology

American Institute of Accountants. Committee on Terminology

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ACCOUNTING TERMINOLOGY

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PRELIMINARY REPORT
OF
A SPECIAL COMMITTEE ON TERMINOLOGY

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EDITOR'S NOTE

In putting before the public a preliminary report prepared by the committee on terminology of the American Institute of Accountants, it is well to emphasize the tentative nature of this work. As the committee says in its preliminary notes, the definitions are put forward not with any thought that they are final but rather to encourage criticism of a constructive kind. The committee probably feels that in many cases better definitions will be found, and suggestions for improvement will be welcome. It is necessary to lay stress upon the tentative nature of this report for two reasons: first, in order that readers may be encouraged to submit reforms, and, second, that there may be no possible misunderstanding as to the position of the American Institute of Accountants. The Institute through its council has authorized publication of this book, but in doing so it specifically withholds official approval of the definitions contained. This seemingly contradictory statement may be explained by the earnest desire of the Institute to do everything possible to stimulate interest in the vitally important question of terminology.

So that the report may be subjected to criticisms not only by members of the Institute but by interested people everywhere, it is offered for public sale. Everyone who feels that there may be improvement in any definition or that other definitions should be included is invited to submit his or her recommendations.

A. P. Richardson, *Editor.*

New York, March 1, 1931.

INTRODUCTORY NOTE

For many years the lack of uniformity in the terminology of accountancy had been deplored on all sides, but no steps were taken to improve the situation until the annual convention of the American Institute of Accountants held in 1920, when it was decided to appoint a committee on terminology whose duty should be the compilation of a vocabulary of the words and expressions used in accountancy and the preparation of definitions.

A committee was appointed and immediately commenced its work. It assembled a vocabulary containing some six or seven thousand words and in July, 1922, the first definitions were published in *The Journal of Accountancy.*

Except for some hiatuses caused by changes in the membership of the committee, definitions have been prepared and published almost continuously for the last eight years, and it is believed that most of the more important terms and most of those concerning which controversy might arise have been defined. These definitions are scattered through successive volumes of *The Journal of Accountancy* and the time has now arrived when it is advisable to publish them.

It has been felt by each member who has served on this committee that, if the work were to be of any value, the results must express the feeling of the profession as a whole, rather than the ideas of any person, and it is in this spirit that the work has proceeded.

The purpose of this book is twofold:

First—to arrange the definitions in regular order to facilitate reference.

Second—to form a definite basis for criticism by accountants and others.

It is desirable to lay emphasis upon two points:

1. This list is not intended to be a glossary of all terms used in accountancy, but, rather, a list of the more important expressions relating directly to it.

2. The definitions appearing are tentative and subject to revision. While it is believed that they represent the sense of the great majority of the leading accountants, it is, obviously, impossible to secure the specific approval of each definition by every accountant.

Therefore, while the council of the American Institute of Accountants has authorized the publication of this volume, it must be clearly understood that this matter is tentative and that the book is issued not as a final and incontrovertible conclusion but with the hope of encouraging full criticism and discussion by accountants and by all others concerned.

The committee has tried to confine its definitions to words that are so definitely accounting terms that no question can exist as to the right of accountants to define them with authority. The accountant's vocabulary contains many hundred derivative terms, such as "interest account," where the qualifying word is so purely adjectival that no definition is required. In addition to such words, accountants frequently use other words that belong to the vocabularies of other professions. Definitions of such terms may appear in the completed vocabulary and, in such case, the definitions will be compiled from authoritative sources and credit will be given to the authors.

The work of the committee is definitive, not encyclopædic, and, therefore, it is limited to drawing definitions and does not include directions as to the preparation of or use of the things which are defined. For example, a balance-sheet is dealt with at some length, but no attempt is made to describe the method of preparing one.

The future work of the committee and the publication of a complete vocabulary will depend, to some extent at least, upon the reception accorded to this book. Both criticisms and suggestions are invited and will be welcomed.

For the Committee on Accounting Terminology,

WALTER MUCKLOW, *Chairman.*

Jacksonville, Florida,
February 1, 1931.

ACCOUNTING TERMINOLOGY

ACCEPTANCE: In accountancy, an engagement, by the person on whom a bill of exchange is drawn, to pay the bill; usually made by the person's writing the word "accepted" across the bill and signing his name, or simply writing his name across or at the end of the bill.

Acceptances are usually divided into three classes, namely:

1. "General" or "unqualified," where no limiting words are added.
2. "Special" when expressed as payable at some particular bank.
3. "Qualified" when stated to be for a less sum than that for which the bill was originally drawn, or when some variation in the time or mode of payment is introduced.

While other derivatives are sometimes mentioned, they may be regarded as variants of these.

Acceptance, Trade: An acceptance (*q.v.*) given in payment for specific goods or services which have been supplied to the acceptor.

Account: (1) In bookkeeping, a particular group or class of entries, either in ledger or in narrative or statement form, in words and figures relating to a person, a transaction or set of transactions or a business, showing with necessary explanations the result of transactions and the condition of affairs at a given time.

(2) The word is frequently used to signify a monthly or other periodic statement rendered by a creditor to a debtor.

(3) On stock exchanges where a periodic and not a daily settlement is the practice, those transactions which are not for cash but are to be settled at the next settling day are said to be "for the account."

(4) Generally, the term may apply to every statement which shows in money value the result of business dealings.

Account, Balance: On the continent of Europe it is still a general custom when closing a set of books to carry to the "balance account" in the ledger all the balances of the other accounts in a summarized form, so that the whole of the accounts may be "balanced off."

The usual custom in this country, however, is to discard the "balance account" and to bring down each balance in its appropriate place.

Account, Contra: An account in which there are shown both debit and credit entries between two parties. Where a person both buys from and sells to another, and only one account is kept of the transactions between them, this is called a "contra account."

Colloquially, the expression is sometimes used to indicate an account which offsets or nullifies another account.

Account Current: A running account of the financial transactions of one party with another, for a given period. The items are usually arranged in chronological order and in debit and credit form. If interest be included, it should be stated on both sides of the account.

Account, Deficiency: This term arose in Great Britain where it still refers only to a statement, known as list "K," prepared by/for a bankrupt, showing how there arose the deficiency shown in the "statement of affairs."

In the United States the term is usually, but not necessarily, applied to a similar statement made up in the course of bankruptcy proceedings or at the close of an investigation, more especially to show the causes for the prospective deficiency in the payments of an insolvent concern to unsecured creditors.

Account, Dividend: The controlling account in a general ledger of a corporation to which is credited the amount of dividend on the day of declaration and to which are charged cheques issued in payment thereof.

Also, the account in the books of a banker or broker to which dividends received are credited. It is charged with that portion of the amount received which is to be credited to customers who are the owners of stock on which such dividends are paid.

Account, Equalization: An account used chiefly in the accounts of transportation companies for the purpose of distributing equally throughout a year amounts set up in an annual budget for the maintenance of fixed improvements or equipment.

Account, Merchandise: An account which is charged with all costs of purchasing goods, including freights and returned goods, and credited with all sales and with purchased goods which have been returned.

This account is practically obsolete; it is now represented by a debit account for "purchases" and a credit account for "sales."

Account, Proprietor's: This expression is almost obsolete; it referred to the account of a person owning a concern. It was credited with the original investment and with profits which had accrued and was debited with withdrawals and losses which had occurred.

Account, Realization: (1) A statement showing the result of winding up an estate, venture or business.

(2) An account in the ledger opened for the purpose of adjusting the accounts of a concern when about to be transferred as a going concern or wound up, as the case may be.

Account, Reconciliation: An artificial account (generally in summary form) created for the express purpose of substantiating the result of another account, or of several accounts, by an agreement of results.

The term is sometimes used to designate a bank reconciliation statement, reconciling the cash in bank, as shown by the cashbook, with the amount shown on a bank statement. (See "statement, reconciliation.")

Account Stated: A running account between two or more parties showing a balance which has been agreed upon by all concerned. Such an account differs from an open account, inasmuch as the admission of a balance due implies a promise to pay that balance—it is in fact an admission of liability and, if attacked, the burden of proof falls upon the party desiring to impeach it.

Accountabilities: Those items for which a person must render an account, although he may not be personally liable for them. For example, a trustee may have disbursed all funds confided to his care and so have relieved himself of liability, but he still is obliged to account for them and the items are, therefore, accountabilities.

Another common example is capital stock, which may appear in a balance-sheet under liabilities although it is not a debt but an item for which the concern is obliged to render an account.

Accountancy: The profession dealing with methods of recording business transactions, with the correct statement of financial affairs, with the guidance of business men in interpreting their accounts, and with the application of sound accounting principles to future development of business, as in the preparation of budgets.

The objective is the statement of financial affairs in such a manner as to give due effect to every material factor, making available all the light that past accounts can give to assist in planning for the future.

It consists of two processes: synthesis, such as is used in building up or designing accounts; and auditing, the object of which is to analyze and verify the results submitted.

Accountant: One skilled in the practice of accountancy.

Accountant, Certified Public: An accountant to whom a state or other political entity has given a certificate showing that he has met its requirements as to age, education, residence and moral character and (except in the case of accountants in practice at the time of passage of the act, for whom generally the examination is waived) that he has passed the prescribed examinations in proof of his professional ability. Such an accountant is permitted to use the designation C. P. A. as an abbreviation after his name.

Accountant, Public: An accountant who offers his services to the general public.

Accounting: (Noun) In law, the rendering of an account of past proceedings, as an accounting of executors to a court, or an accounting between parties to a suit. Accountants use the word in the same sense. The word is sometimes used by itself as a synonym for accountancy but such use should be discouraged, although it forms a part of compound words signifying various branches of accountancy.

(Participle) Exercising the functions of an accountant; preparing statements of account; devising methods of record keeping; generally, applying correct principles to financial records.

Accounting, Administrative: The designing and keeping of accounts especially for the guidance of those directing the business of a concern.

Accounting, Cost: That branch of accountancy designed as an integral part of, or as complementary to, a general system of accounts, for the sole purpose of ascertaining the cost of the processes, operations, products and/or complete projects.

Accounting, Estate: The preparation and keeping of accounts for any property in the hands of executors, administrators or trustees, acting under the jurisdiction of a surrogate's court or similar judicial authority, in accordance with the rules of accounting procedure laid down by the court.

Accounting, Fiduciary: The preparation and keeping of accounts for any property in the hands of trustees, whether under the direct jurisdiction of a court or acting by virtue of a private deed of trust or instrument of appointment.

Accounting, Manufacturing: The preparation and keeping of accounts designed for and relating to manufacturing concerns, involving particularly the proper distribution of charges for material, labor and overhead expense.

Accounting, Mercantile: The preparation and keeping of accounts relating to businesses engaged in trading, either wholesale or retail, as distinguished from manufacturing, financial, public-utility or other activities.

Accounting, Public: (1) The practice of accountancy for a variety of unrelated enterprises which stand to the accountant in the relation of client and not of employer.

(2) The work of a public accountant (*q.v.*).

Accounts: When used in the plural this word usually signifies the books of account and some supporting evidence. Many auditors state in their certificates that they have examined the "books and accounts"; some refer only to the "accounts" which they have audited, while others refer only to the "books" which have been examined.

Accounts, Multiple Cost: Accounts relating to the cost of manufacturing several different commodities having little or no relation to each other as to either cost or selling price. They vary greatly as to their details and it is usual to adopt some standard unit of output and to reduce all items of cost to terms of this unit.

Accounts, Nominal: These are accounts in name only and are used for the purpose of classifying income and expenditures under such heads as salaries, rent, insurance, etc., sales, purchases, etc., which finally are transferred to a profit-and-loss account. They are sometimes known as impersonal accounts to distinguish them from the accounts maintained with persons.

Accounts Payable, Trade: Liabilities on open account for commodities, supplies or expenses used in or incurred for the regular business of the concern as distinguished from liabilities (*e.g.*, loans or notes payable) which have arisen from some other cause or have been converted into some other form.

Accounts Receivable: Amounts due by debtors, which are continually being converted into some liquid and more available assets, such as cash, and, therefore, may be expected to result in the collection of funds from which liabilities may be met. (See also "accounts receivable, trade.")

Accounts Receivable, Discounted: Accounts receivable which have been conditionally assigned to a bank or factor at some proportion of their face amount, less a discount for deferred collection, on which, therefore, the concern has some contingent liability.

Accounts Receivable, Net: Accounts receivable from the total of which there have been deducted anticipated claims for items such as allowances, discounts and freights and, particularly, provision for bad and doubtful accounts, the result being the sum which the accounts receivable may be expected to yield to the concern.

Accounts Receivable, Trade: Accounts receivable which represent sales made to customers on open account in the regular course of business, as distinguished from accounts arising from other sources.

It is customary to show those which are past due separately from those which are current. They are often "aged" or divided into classes according to the length of time past due. Amounts due from directors, officers or employees must not be included under this heading.

Accounts, Secured: Secured accounts are those for which the concern holds, or has given, some security, such as the retention of title to goods covered by invoices.

Secured accounts payable should be shown as a separate item on a balance-sheet.

Accounts, Unsecured: Those accounts receivable or payable for which no specific security has been given.

Accretion: In accounting, additions due to the operation of a plan formulated for the purpose of accumulating funds, as, for example, a pension fund, the accretions to which may result from (a) the setting aside of a percentage of the payroll and (b) income upon the investment of funds so set aside. Accretion must be distinguished from appreciation and increment.

Accrual: (Noun) While, in a general sense, this word means the act of accruing, in accountancy it applies to sums which have accrued. (See "accrue.")

(Adjective) The word is used as an adjective in relation to federal income tax in the expression "accrual basis," and the regulations provide that accounts may be kept on the "cash basis," showing only cash received and expended, or on the "accrual basis" which applies to all other methods.

Accrue: This word conveys the following meanings:

(a) To accumulate, as an accrual of interest.

(b) To come as a natural result or increment, as by growth.

(c) To come into existence, as a right or the like.

(d) To arise, as an addition, accession or advantage.

(e) To become vested (legal usage) indicating a present and enforceable right or demand.

(f) To increase (rare usage).

The meaning most commonly met in accounting practice is that of accumulation [(a) above] based upon lapse of time, *e.g.*, in the case of interest it signifies an accumulation to a stated date of an item receivable or payable at a later date but covering a period commencing prior to the stated date.

Actuary: Originally an actuary was an officer appointed to report the proceedings of a court; later the term was used to describe the secretary or accountant of a public company.

Today it is generally accepted as describing one who is skilled in computing the value of benefits, such as annuities, reversions, etc., in which the contingency of human life is involved.

Advances: Money paid by one party to another, not as a final payment but on account for some specific purpose, which must be accounted for or returned. Some of the common advances are made to salesmen to defray their traveling expenses or on account of commissions which it is expected they will earn.

Adventure: A speculation of any kind, more specifically one involving goods sent abroad. The term is now seldom used except in marine insurance.

Adventure, Joint: An adventure in which several parties are interested jointly.

Affiliation: While in a general sense this word may mean only an alliance or connection, in accountancy it implies a common control—that is to say, several concerns which are subject to the control of one body are said to be affiliated.

The term frequently appears in the regulations relating to income tax, under which corporations are regarded as affiliated where one corporation controls the stock of one or more other corporations or where the stock of several corporations is controlled by the same interests.

Aging: An analysis, usually of accounts receivable, showing the time which accounts have been running. It is sometimes calculated from the date of billing and sometimes on the time which has elapsed since the terms of credit expired, the terms used, such as sixty days, ninety days, etc., depending on the customs of the particular business to which the accounts belong.

Allotment: The process of distributing stock, shares or debentures to those who are entitled to them either through formal application or under contract.

Allowance: This word indicates something which is approved, permitted, awarded, conceded, yielded or assigned.

As used in accounting it indicates—

1. A recognition of modifying circumstances or a margin for deviations from standard; specifically

(a) A deduction from the purchase or selling price of commodities on account of short weight, inferior quality, damaged goods, delayed delivery, breach of contract, etc. Such deductions should be made directly from the accounts which they affect.

(b) A deduction from the amount charged for personal services rendered, for work performed or for service furnished (heat, light, telephone, transportation, etc.), either receivable or payable, on account of dissatisfaction, breach of contract, etc.

(c) A deduction of a lump sum from an amount receivable or payable for prompt payment, as distinct from a percentage discount.

The foregoing allowances are deductible from the accounts containing the items upon which the allowances are made, whether such accounts be nominal or real.

2. An amount granted for a specific purpose, *e.g.*, an allowance for office rent or an allowance in lieu of actual expenses.

In law the word is used to denote an extra sum awarded, in addition to regular costs, to the successful party in a difficult case.

In minting, the word is used to denote a permissible deviation in the fineness and weight of coins, on account of the difficulty in obtaining exact conformity to standard prescribed by law.

Note: The word "allowance" is occasionally used synonymously with "reserve," *e.g.*, allowance for depreciation or allowance for bad debts, but this usage should be avoided.

Allowances: These are deductions from charges to customers and may arise from any one of several causes, such as imperfections, short quantities, poor quality, etc.

The amount is deductible from the gross sales for the period and should be so shown. Provision should be made, by means of a reserve deductible from accounts receivable in the balance-sheet, for allowances made or to be made in such accounts.

Amalgamation: A combination of two or more businesses for the common advantage. It may be effected by the transfer of all or part of the assets and liabilities of one or more existing concerns to an existing concern or to a new company.

Amortization: The basic idea suggested by this word is that of reducing, redeeming or liquidating the amount of an account already in existence.

In finance and accounting this word means the gradual extinguishment of an asset, a liability or a nominal account by prorating the amount of it over the period during which it will exist or its benefit will be realized.

Amortization is caused by and the computations are based upon effluxion of time or units of production. Life of a right or obligation or loss of possession or use are the governing factors, *e.g.*, amortization of a patent or of debt discount and expense, or of a bonus paid for a lease, or of the value of machinery, buildings, etc., on leasehold property which revert to the landlord upon expiration of a lease, or of the value of mine equipment whose useful life is known to exceed the productive life of the mine and is necessarily to be abandoned upon ceasing operations.

Amortization is also used to denote the gradual extinguishment of a debt by means of a sinking fund.

The distinction between amortization and depreciation is demonstrated in the case of a tributary asset such as mine shafting, where the life of the mine is estimated to be less than that of the shafting. In such a case the shafting should be *amortized* over the life of the mine, and not *depreciated* on the basis of physical deterioration. If the mine product were no longer salable *obsolescence* would be the proper designation for the loss in value of the shafting.

In law, amortization has an additional meaning, namely, the act of alienating lands or tenements to a corporation in mortmain. In old French law this could only be done by permission of the king, and it involved the payment of a tax by the corporation, so that in time the word was often used to signify this tax.

Annuity: Originally the word meant a sum of money paid yearly, but it is now applied to sums which are computed by the year but are paid at stated intervals of a year or less.

Annuity, Certain: An annuity payable for a definite period as distinct from one dependent upon some contingency for its duration.

Annuity, Deferred: An annuity the payment of which does not begin for a number of years. It may be dependent on or independent of life.

Annuity, Life: An annuity the payment of which depends upon the continuance of a life or of a number of lives.

Annuity, Terminable: An annuity which ceases upon the occurrence of some described event.

Appreciation: This word indicates an increased conversion value of property (securities, real estate, etc.) or mediums of exchange (coins, bullion, or paper currency) due to economic or related causes which may prove to be either temporary or permanent.

Appreciation is the antonym of depreciation where the latter is used to denote shrinkage in conversion value.

Appropriation: The setting aside of an amount to be devoted to some specified purpose. The amount may be set aside out of any fund whatever, and thereafter it is available only for the purpose for which it was appropriated unless the appropriation is withdrawn.

An appropriation may be of varying degrees of binding force. In the case of business enterprises it may be no more than the expression of an intention. In the case of a public corporation it may be finally binding.

An appropriation does not necessarily involve the ear-marking of any specific cash or other liquid asset to carry out the purpose of the appropriation.

Assessment: (1) The valuation of property for the purposes of taxation.

(2) A levy on security holders of a corporation for the purpose of raising additional capital.

(3) A charge made by a local governmental body against property for specified improvements, such as paving, sidewalks, sewers, drainage, etc.

Assets: The entire property of all kinds of a person, partnership, corporation, association or estate available for or subject to the payment of debts.

In law the word frequently has a restricted meaning, especially in bankruptcy, receiverships and the administration of estates, and indicates the fund out of which debts can be paid.

Conventionally, debit balances subject to final disposition, such as deferred charges, discount on capital stock, prepayments and other suspense items, are classified as assets at closing periods even though the stated values rarely represent the realizable values available for or subject to the payment of debts.

For balancing purposes "deficit" is not infrequently included in the total assets. This practice is not only misleading but incorrect. There should be an intermediate footing before stating the deficit.

The word " assets " is derived from the French " assez," meaning " sufficient," and originally signified a sufficiency of property to pay the decedent's debts.

Assets, Accrued: Those assets, such as interest, which accumulate by the passage of time, so that their value can be determined at any date by an exact calculation. This increasing value differs from change due to increase in the market value of securities, which is known as appreciation.

Assets, Active: Assets for which payments are being made from time to time on account of principal or of interest. The term is not synonymous with " current assets," as the latter includes such items as cash, inventories, securities, etc., which may not have been reduced during any given period.

Assets, Admissible: Under the profits-tax laws, now repealed, a tax was assessed on profits exceeding certain percentages of invested capital. In computing invested capital for the purpose of assessing such taxes, certain assets were disallowed: these were called " inadmissible assets."

Assets, Available: Those assets which can be used immediately for the liquidation of indebtedness. The term may include goods unsold, which do not come under quick assets (*q.v.*), and may also include such items as supplies for operations.

Assets, Capital: Assets of a permanent nature or intended for long-continued use or possession, which are employed in or necessary for the conduct of an undertaking and reflect the investment of capital for the purpose of producing revenue. Specifically:

(a) Tangible assets, *e.g.*, land, buildings, plant and equipment.

(b) Intangible assets, *e.g.*, patent rights, franchises, rights of way, goodwill.

(c) Investments in other companies made for purposes of control.

Expenditures which tend to enhance the value of property or its efficiency may be considered as capital assets, or, to adopt a narrow view, only those expenditures may be capitalized which tend to increase revenue or diminish expenses.

Assets, Cash: These consist of cash on hand, cash deposited with bankers, cash in transit, petty-cash funds and working funds which are immediately available for the current needs of the business. Any cash which is set aside for particular purposes or is held by a trustee for a specific security should be shown separately.

Assets, Circulating: Those assets which, in the normal course of business, are converted into cash or its equivalent, *e.g.*, merchandise inventories and receivables.

Assets, Contingent: Assets, the value or existence of which depends upon the occurrence or non-occurrence of a certain event or upon the performance or non-performance of a certain act.

Assets, Current: Cash, accounts and notes receivable from outsiders and inventories of stock-in-trade, which in the regular course of business will be readily and quickly realized, together with such additional assets as may readily be converted into cash without impairing the business or enterprise, *e.g.*, marketable securities other than those held for purposes of control, notes or accounts receivable from officers, stockholders or employees.

There are other terms of similar meaning, though not strictly synonymous with current assets, *e.g.*, " quick assets " is most commonly used in banking circles and includes those current assets which can and will be quickly converted. The term " circulating assets " is commonly used by economists to denote those current assets which arise from trading or business operations. " Floating assets " is an English term synonymous with circulating assets. Liquid or cash assets are those assets of any kind which may readily be converted into cash.

Assets, Dead: This term is usually applied to assets which appear on a balance-sheet or similar statement but have no value and produce no income.

Assets, Deferred: (a) That portion of expense items which is applicable to the period subsequent to the closing date.

A better term would be " deferred charges " or " deferred expenses," inasmuch as the charge to the operation is the thing deferred and not the asset value.

(b) Of rare occurrence, assets the realization of which is long postponed, *e.g.*, the capitalization of rentals by virtue of a provision in a leasehold whereby the rentals may, at the option of the lessee, be applied on account of purchase price.

The distinction between a deferred asset such as the foregoing example and a contingent asset is that the value of a contingent asset is predicated upon outside action not under control.

Assets, Diminishing: Those assets which by exhaustion, lapse of time or otherwise are periodically reduced, the value of which (disregarding fluctuation in market price) must be correspondingly reduced. Such assets include mineral deposits, copyrights, franchises for a limited term and similar property, inherently wasting in character, whose diminution in value can not be retarded by expenditures for maintenance, as in the case of tangible fixed property. Timber lands are usually included in this category, although capable of conservation by proper reforestation.

Assets, Doubtful: Assets the value or collectibility of which is uncertain.

Assets, Equitable: Those assets which creditors can make available for the liquidation of indebtedness only through a court of equity, either on account of the character of the asset or through some express agreement about it.

Assets, Fictitious: Assets which do not represent real value, or assets which can not be realized.

The term, strictly speaking, is descriptive of book assets the value or ownership of which is based upon false premises. It is frequently used, however, as synonymous with nominal assets and, without suggestion of fraud, to denote assets which exist in name only or have a negligible value.

Assets, Fixed: This term is synonymous with capital assets in undertakings in which capital is employed for the purpose of producing revenue, but it may also refer to tangible assets in undertakings where there is no proprietary accountability, *e.g.*, hospitals, religious and charitable organizations, educational institutions.

The term "fixed assets" denotes a fixity of purpose or intent to continue use or possession. It does not refer to the immobility of an asset, which is the distinctive characteristic of "fixtures."

Assets, Fixed, Intangible: These consist of such items as franchises, trade-marks, patents, copyrights, and goodwill; also such deferred items as development or organization expenses if it is not intended to amortize them within a reasonably short period.

Assets, Fixed, Tangible: These include land, mineral deposits, plant, equipment of all kinds and construction materials held for use in a business and not simply for investment.

Assets, Floating: Those assets which are acquired for the purpose of sale or manufacture and subsequent conversion into money, such as stock and receivables. They constitute the floating or circulating capital. (See also "active, quick, circulating and liquid assets.")

Assets, Hypothecated: Assets pledged as security and not available for general purposes. In American usage, applied generally to personal property, where the creditor is given actual or constructive possession of the assets concerned.

Assets, Immaterial: A term of doubtful validity, sometimes used to indicate intangible assets.

Assets, Impersonal: Those assets representing investments of an impersonal nature, as distinct from amounts due from debtors.

The term is not recommended in classifying accounts in balance-sheets or similar statements.

Assets, Inadmissible: A portion of the assets which usually must be excluded from invested capital in the computation of profits taxes to accord with federal revenue acts.

Assets, Intangible: On account of the changed meaning of these terms the most acceptable definitions are those given in the revenue act of 1921 (substituting "tangible assets" in place of "tangible property," as quoted), viz.:

> "The term 'tangible property' means stocks, bonds, notes and other evidences of indebtedness, bills and accounts receivable, leaseholds and other property other than intangible property."
>
> "The term 'intangible property' means patents, copyrights, secret processes and formulæ, goodwill, trade-marks, trade-brands, franchises and other like property."

Among those assets not specifically mentioned in the law, but considered as tangible assets (by exclusion from "intangible property") are cash, inventories of stock-in-trade and all kinds of physical property.

Originally the term "tangible property" referred to assets which had a physical existence or were susceptible to the touch, *e.g.*, real estate, buildings or machinery, and in that sense it corresponds broadly to the legal phrase "chose in possession," as distinct from "intangible assets," which correspond to the legal phrase "chose in action."

Assets, Ledger: This term is used to describe all assets appearing on a ledger or balance-sheet or similar statement, whether they are stated at their real value or not, *e.g.*, fictitious assets may properly be included but may not have any realizable value, while assets carried at nominal or at "book" value may be of much greater actual value.

Assets, Legal: Legal assets are such as constitute the fund for payment of debts according to their legal priority.

Assets, Liquid: Those which are readily convertible into cash and are, therefore, immediately available for liquidating indebtedness. (See also "active, circulating, floating and quick assets.")

Assets, Miscellaneous: The use of this term should be avoided when possible. It is sometimes used to include such items as fiduciary matters and claims in dispute which can not be included under the headings generally recognized.

Assets, Net: This expression is so indefinite that its use should be avoided.

Assets, Net Quick: The excess of quick assets over current liabilities.

Assets, Non-ledger: A term used in the statements of accounts of insurance companies. The exact definition depends upon the requirements of the various state insurance departments. Non-ledger assets generally include such items as interest due and accrued, rents due and accrued, office furniture and similar items, even though they may in fact be a matter of ledger record. The excess of market values over book values of sundry assets is termed a non-ledger asset and may be included in the balance-sheet of an insurance company.

Assets, Non-productive: Assets which do not lead directly to the production of revenue.

Assets, Other: Assets which do not belong to any of the recognized balance-sheet classifications such as fixed assets, current assets, deferred charges, etc. When such an item appears in a balance-sheet, the particulars should be given, if the asset is of substantial amount.

Assets, Passive: A term sometimes used to describe fixed intangible assets. The use of the phrase should be abandoned.

Assets, Permanent: Synonymous with fixed assets.

Assets, Physical: Assets which have a physical existence, *e.g.*, real estate, buildings, machinery and equipment.

Assets, Pledged: Assets placed in trust (*e.g*,, securities) or mortgaged (*e.g.*, land, buildings, plant) to secure an obligation or for other purposes.

Synonyms: mortgaged assets, hypothecated assets.

Assets, Productive: Those used in the course of business to produce profit.

Assets, Quick: (1) A term used to designate assets the nature of which makes them available under all normal conditions for the payment of liabilities. Such assets include cash in bank and on hand; call loans; marketable securities; accounts, notes and loans receivable, which by their terms are collectible on demand or within the regular period of short-term credit; commodities salable at quoted prices on the open market, such as cotton, grain, coffee, metals and similar products and certain other current assets, depending upon the nature of the individual business. Other items properly included in current assets, such as goods in process of manufacture, manufactured articles, long-term accounts and notes receivable, should not be treated as quick assets.

(2) Cash and other current assets, which, in the ordinary course of business, will be readily and quickly realized—a somewhat more restricted term than current assets, and used most commonly in banking circles.

Assets, Slow: (1) Any asset not readily convertible into cash.

(2) All assets other than quick assets (*q.v.*) and current assets.

Assets, Sundry: The use of this term should be avoided because it is too indefinite. It is synonymous with miscellaneous assets.

Assets, Surplus: This term is used especially in English bankruptcy law, where it indicates the surplus remaining to a bankrupt after the payment of all debts, costs, charges and expenses.

Assets, Tangible: (See " assets, intangible.")

Assets, Unpledged: Assets which have not been hypothecated and are held in actual or constructive possession.

Synonyms: free assets, unmortgaged assets.

Assets, Wasting: Material assets (*e.g.*, mines, timber lands, quarries), which diminish in value by reason of and commensurately with the removal of their product, or immaterial assets (*e.g.*, franchises, patents) which theoretically diminish in value by reason of and commensurately with effluxion of time.

Synonym: diminishing assets.

Assets, Working: A term adopted as descriptive of assets intermediate in character between capital and current. Specifically, assets which are consumed in the activities carried on without themselves forming an integral part of the product, *e.g.*, supplies used in operations.

Association: In general a union of persons organized for a common purpose. In accountancy it has no other meaning, except in the federal income-tax regulations, which contain definitions of the word as it is understood in administration of the tax laws.

Audit: An examination of the books of account, vouchers and other records of a public body, institution, corporation, firm or person, or of any person or persons standing in any fiduciary capacity, for the purpose of ascertaining the accuracy or inaccuracy of the records and of expressing opinion upon the statements rendered, usually in the form of a certificate.

In the absence of any expression defining the extent to which it has been limited, an audit is understood to be an examination of the subject matter of the accounting in all its financial aspects, including, so far as the several classifications of accounts may be involved, the verification of assets, liabilities, receipts, disbursements, income, expenditure, capital and reserves and their application; surplus and profits and their disposition, in such detail as may be necessary in the circumstances of each individual case to permit an unqualified certification of the statements rendered and of the accountability of the fiduciary parties.

In practice an audit is in many cases limited in varying degrees recognized by custom and indicated by qualifying expressions, the definitions of which are given below, as follows:

Balance-sheet audit
Cash audit
Partial audit
Special audit

Audits not necessarily limited in scope are frequently given other designations or descriptions, as follows:

Complete audit
Continuous audit
Detailed audit
External audit
Internal audit
Private audit
Public audit

(See also " examination and investigation.")

Audit, Balance-sheet: A balance-sheet audit consists of the verification, as of a given date, of the assets, liabilities, capital, surplus and all reserve accounts, including as incidental thereto such examination of the operations as may be necessary to give credence to the stated financial condition.

It does not include the detailed vouching of all receipts and disbursements or all details of income and expenditures, nor does it establish the accountability of the fiduciary parties, except broadly.

It should be accompanied by a report stating the nature and extent of the verifications which have been made, drawing attention to any items requiring explanation or comment, or by a certificate stating the opinion of the auditor as to the correctness or incorrectness of the statement submitted, or by both report and certificate.

(See *Verification of Financial Statements*, written by the American Institute of Accountants and issued May, 1929, by the Federal Reserve Board, reprinted by United States Government Printing Office, Washington, D. C.)

Audit, Cash: An audit limited to the verification of cash transactions for a stated period, for the purpose of determining that all cash received has been brought into account and that all disbursements are properly authorized and vouched.

A cash audit is detailed in character but limited in scope. It is concerned with the sources of receipts and the nature of disbursements only to substantiate their accuracy. Such an audit establishes the accountability of the persons charged with responsibility for cash. A certificate may be given in appropriate form on a summary of the cash transactions for the period.

Audit, Complete: One in which the examination extends to a verification of the details of all the books of account including subsidiary records and all supporting vouchers, as to mathematical accuracy, complete accountability and correctness of accounting principle. In modern practice such an examination is seldom made.

Audit, Continuous: One in which the detail work is performed either continuously or at short regular intervals throughout the fiscal period, usually at the shortest intervals (*e.g.*, weekly or monthly) at which subsidiary records are closed and made available for audit in controllable form. Such "continuous" work leads up to the completion of the audit upon the closing of the accounting records at the end of the fiscal period.

A continuous audit differs from a periodical audit, even though the detail work be performed, for example, monthly, in that no report is made, except of irregularities detected and adjustments found to be necessary, until the end of a complete fiscal period, and, further, in that the certification of balance-sheet figures, as such, may be deferred until the fiscal closing.

A continuous audit is not necessarily a complete audit but may be limited in scope according to understanding and to meet the requirements of the case.

Audit, Detailed: This is similar to a complete audit, but usually a series of tests is substituted for a complete audit of every entry.

An audit may be detailed and yet limited in scope, *e.g.*, a cash audit.

The form of report will depend on the scope of the work, but, as far as the work goes, it will follow the corresponding portion of a report of a complete audit.

Audit, External: This term is not in common use but is occasionally used to indicate an audit by someone, such as a public accountant, external to the concern which is being audited.

Auditing: The work of carrying out an audit. (See "audit.")

Audit, Internal: This term refers to an audit made by members of the staff of the concern audited. Frequently "staff auditors," "traveling auditors" or "inspectors" are employed to make continuous or periodical audits of some or all of the transactions. The scope is not definite, and their work is frequently supplemented by examinations made by public accountants.

Audit Note-book: A note-book written up during the progress of an examination to show data relative to work done. It may contain daily particulars of work done, names of auditors who do the work, time consumed—all for the use of the auditors' office. It may also contain particulars of matters requiring special attention, and in case of continuous audits the bank reconciliations, lists of missing vouchers and other matters to be referred to at the next audit. Frequently it contains the audit programme.

Audit, Partial: A term used to describe (a) a special examination of some portion of a set of accounts or records or of all the accounts for an incomplete period, such work being the subject of specific instructions describing and limiting its extent; or (b) more inexactly, a test of the detailed transactions made in conjunction with a balance-sheet audit.

Audit, Private: The use of this term is confined to British practice and is defined by Pixley as follows:

"Private audits may be divided into two classes: (1) where the auditor is instructed by his client to perform certain specified auditing duties which, when he has discharged them in accordance with such instructions, terminate such duties and at the same time his responsibilities; (2) where he is instructed by one or more individuals, who may be interested in some business or estate, which although not registered under any act of parliament, is nevertheless subject to some agreement or deed, or testamentary document, and perhaps also subject to some act or acts of parliament and subsequent legal decisions." Pixley's *Accountants' Dictionary*, p. 54.

Audit Programme: A detailed description of work to be done in any given audit.

It is prepared before the audit is begun and is usually drawn by the senior accountant directing the examination for the guidance of himself, of his assistants, of the person who edits the report, or of those who may make future audits of the same concern.

The programme covers only the minimum of work to be done, and its fulfilment does not absolve the auditor of the duty of doing any further work that his observation shows to be necessary.

Audit, Public: This is an English expression defined by Pixley as follows:

"Public audits are those which are carried out under the provisions of an act or acts of parliament, or under the clauses of a royal charter. In such cases the auditors are appointed in accordance with the provisions of the act of parliament or of the royal charter, combined with special regulations or by-laws made in conformity therewith, and although these duties are not actually defined, the forms of the accounts which they have to certify, either with or without qualification, are frequently prescribed."

Audit, Special: An audit made for any purpose other than the verification or certification of statements of account presented according to regular procedure at the close of an accounting or fiscal period. Such an examination may be one where specially exhaustive attention is given to detail, or it may, on the other hand, be a sketchy examination of some limited feature of the accounts. An interim or periodical audit made in the regular course, however, is not a special audit.

Auditor: (1) Originally one who heard explanations of accounts; now one who examines accounts.

(2) An officer appointed by some authority for the purpose of examining and reporting on specified accounts.

Average: When used in relation to accounts, this word indicates the mean of two or more quantities and is obtained by adding the quantities together and dividing the sum by the number of items.

In marine insurance the word is used to indicate any loss which may occur.

Average, General: In marine insurance a loss arising from a sacrifice purposely made for the preservation from danger of the ship, cargo and all on board. As such loss is incurred for the benefit of all, it must be replaced by contribution from all.

Average, Particular: A loss suffered by one particular interest arising from accidental damage caused by the perils against which insurance is held.

Averages, Moving: A moving average is obtained by taking the simple average of a group of terms; then the first term of this group is dropped, a new term is added and a simple average is again taken of the new group of terms. This process is continued until the entire series of terms has been exhausted, but the number of terms in each group must always remain the same.

Moving averages are used with best success in industries where there are no seasonal fluctuations. If there are seasonal fluctuations the moving averages will accentuate the peaks and depressions as they appear.

Averages, Progressive: A progressive average differs from a moving average in that a simple average of the first two terms of a series is first obtained; then a simple average of the first three terms is obtained, and so on. Each time the simple average is taken of one more term than the preceding time, until a final simple average is obtained of all the terms in the series.

A progressive average tends to smooth over peaks and depressions and to make the result appear to be more nearly uniform than the conditions warrant.

Averages, Weighted: A weighted average is one in which consideration is given to the fact that units of the series have values which differ from one another in kind or character. The number of units in each class is multiplied by the assigned value of each unit, and the total of these results is divided by the total number of units.

Averaging Accounts: The process of ascertaining a single date when the settlement of an account consisting of several items due at different dates may be made without loss of interest to either party to the transaction.

BALANCE: The difference between two sides of an account. The word is often loosely used to indicate a remainder after one amount has been subtracted from another.

Balance-sheet: A statement of the financial position of an undertaking at a specified date, prepared from books kept by double entry, showing on the one side the assets and, on the other side, the liabilities and accountabilities (for proprietorship or trust funds). If the assets exceed the liabilities and the accountabilities, the difference, representing a surplus, is shown on the liability side, thus causing each side to agree in total. If the liabilities and accountabilities exceed the assets, the difference, representing a deficit, is shown on the asset side, or deducted from the liability side, with a similar result as to the totals of both sides. The asset side may include deferred debit items and the liability side may include deferred credit items and reserves (except those applied in reduction of assets).

A similar statement, prepared from books kept by single entry or from memoranda, is technically known as a "statement of assets and liabilities."

According to the so-called "American" or "Continental" method, the asset side of a balance-sheet is shown on the left and the liability side on the right, but according to the so-called "English" method the sides are reversed.

Balance-sheet, Amalgamated: A term used in Great Britain as synonymous with "consolidated balance-sheet."

(NOTE: The term "aggregate balance-sheet" is sometimes used to convey the same meaning, but the word "amalgamated" is preferable.)

Balance-sheet, Comparative: A statement showing assets and liabilities as at two (or more) dates, in parallel columns, frequently amplified by additional columns showing increases and decreases or, more rarely, resources and their disposition.

The order of dates is usually from left to right, but the reverse order is not infrequently used. In the additional columns, however, it is almost universal practice to place the increase or resource column on the left and the decrease or disposition column on the right, and the later of two dates is always the basis for comparison.

When increase and decrease columns are provided, the totals are usually omitted, as they are merely proof figures and rarely have any direct accounting significance, but, if shown, it is preferable usually to state the total net increase or decrease on each side of the balance-sheet and the same net amounts will then appear in like columns on opposite sides.

In order to save space, increases and decreases are not infrequently shown in one column, different colored inks or different type being used to differentiate the items, but this expedient is rarely adopted if the statement is prepared on a resource and disposition basis.

A resource and disposition statement is quite frequently prepared as an adjunct to a comparative balance-sheet, with increase and decrease columns or without additional columns.

Balance-sheet, Condensed: A term applied to a balance-sheet giving the information in summary form as, for example, when all the fixed assets are shown in one total and the receivables and payables are similarly treated.

Balance-sheet, Consolidated: A statement in which the respective assets and liabilities of a holding company and its subsidiaries are combined, but after inter-company items have been eliminated.

This statement more clearly and correctly sets forth the financial position of a group of affiliated companies in their relation to the general public, though its legal status has not been definitely established, except for the purpose of determining invested capital under prior federal revenue acts.

In the preparation of a consolidated balance-sheet there are usually two points which require special treatment, *viz.:*

(a) The offsetting of inter-company stockholdings.

(b) The proportion of consolidated surplus applicable to minority stockholders of subsidiary companies.

There are two basic methods of treatment of (a): *viz.:*

(1) The amount by which the value of the stock of any company as carried on the books of another company exceeds or falls short of the par, stated or declared value thereof, plus a proportionate amount of surplus at date of acquisition, represents an addition to or diminution of goodwill, on the consolidated balance-sheet. If, however, by the operation of this rule a credit balance is created in goodwill, that credit balance should be designated as "capital surplus."

(2) The amount by which the value of the stock of any company on the books of another company exceeds or falls short of the par,

stated or declared value thereof represents an addition or diminution of surplus in the consolidated balance-sheet.

There are variations of the above methods, particularly the first, which in many instances is impracticable if purchases of stock have been made at odd times between closing dates, although this condition is sometimes met by estimating the surplus to be the same as at the nearest closing date. Sometimes the surplus at the date of acquisition is ignored, though this is not technically correct.

The computation necessary to determine the amount of surplus applicable to minority stockholders of subsidiary companies is a simple problem of proportion, and the rule should properly be applied to each subsidiary company separately before determining the consolidated surplus. This item is, however, frequently ignored on consolidated balance-sheets, the surplus in such cases being stated in one figure without comment, with the result that the relative equity of the stockholders in the holding company and of the minority stockholders in the subsidiary companies in the net worth of the combined undertaking is obscured.

If the holding company owns practically all of the stock of its subsidiaries, leaving a negligible amount of surplus applicable to minority stockholders, it is probably better accounting practice to append a note to the balance-sheet setting forth such negligible amount rather than to divide the surplus into two items; but if the portion of surplus applicable to minority stockholders is set forth as a separate item, it should be added to the item of minority stockholdings and the total should be carried out as representing the total minority equity. This method most clearly and fully sets forth the facts.

The total minority equity is sometimes shown in one figure, but this method is open to objection because it obscures the total amount of outstanding stock of the combined undertaking in the hands of the public. Sometimes the total minority equity is merged with the consolidated surplus, but this is wholly erroneous.

The minority stockholdings are sometimes merged with the outstanding stock of the holding company, and in that case the consolidated surplus is invariably shown in one amount, but this method also obscures the facts for the reasons already given.

If a holding company owns all the stock of its subsidiaries, there is no problem of minority stockholdings and apportionment of surplus. In these cases, the preparation of a consolidated balance-sheet is materially simplified.

In the June, 1923, issue of *The Journal of Accountancy* is an article entitled "Mechanical Difficulties in Consolidating Accounts," which discusses the various mechanical methods of preparing a consolidated balance-sheet. These are, the horizontal method (the one most commonly used), the agglomerative or agglutinative method and the synopo-synthetic or vertical method.

Balance-sheet, Double-account-form: A balance-sheet which is divided into two sections, *viz.*, capital or financing and operating or general. This form, based upon the double-account system, is used chiefly in Great Britain and is prescribed for certain public-utility companies incorporated under special acts of parliament, *e.g.*, railways, gas companies and electric-light companies. The system has also been adopted by other companies, *e.g.*, tramway, canal and shipping companies, water and electric power companies, telegraph and telephone companies, mining and quarrying companies, and companies holding lands and buildings for letting purposes.

The capital account is on a cash basis and reflects the capital receipts and expenditures as shown by the capital-account ledger. On the one side are shown the receipts from shares or stock and debentures, including any premiums, and on the other side are shown the various fixed assets on which the money thus received has been expended, including law charges in relation to land and parliamentary expenses in promoting special acts of parliament, and the balance of the capital account is carried down to the second section or "general balance-sheet."

The general balance-sheet includes the floating assets and liabilities, reserve fund, depreciation fund, revenue-account balance and all other items.

The fixed assets are never depreciated in the capital account, but depreciation may be provided by charging net-revenue account and crediting a depreciation-fund account, such "funds" (credit accounts) being compulsory in some classes of companies.

Balance-sheet, Fund: (1) A balance-sheet which sets forth the assets and liabilities of a particular fund, *e.g.*, sinking fund, corporate stock fund, trust fund.

This form of balance-sheet is used chiefly for municipal operations and when so used shows the funding relations of a city, or other political subdivision, containing on the credit side unexpended authorizations to incur liabilities, contingent liabilities on contracts and orders, reserves for retirement of temporary loans, etc., and on the debit side resources available for meeting them, such as cash not otherwise applied, outstanding taxes available and the amount of other revenue which a city or other political subdivision has pledged itself to collect.

(2) A balance-sheet which sets forth the constitution of a particular fund and its corresponding accountability, *e.g.*, sinking fund, trust fund, etc.

This form of balance-sheet is used by many political subdivisions, by chambers of commerce, clubs, hospitals and other institutions.

Balance-sheet, General: A term used in Great Britain as descriptive of the second section of a double-account-form balance-sheet.

In the United States the term is sometimes used synonymously with condensed balance-sheet and sometimes loosely applied to a balance-sheet without special significance. In municipal accounting the term is used to distinguish the statement from a revenue or fund balance-sheet.

Balance-sheet Giving Effect to Proposed Financing: This means a balance-sheet based on audit of existing accounts, and giving retroactive effect to financing, mergers, consolidations or contracts that either have 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 by responsible parties.

The following rules for certification of such statements were presented by a special committee of the American Institute of Accountants in 1923 and approved by the council of that organization:

"The accountant may certify a statement of a company giving effect as at the date thereof to transactions entered into subsequently only under the following conditions, *viz.:*

"(a) If the subsequent transactions are the subject of a definite (preferably written) contract or agreement between the company and bankers (or parties) who the accountant is satisfied are responsible and able to carry out their engagement;

"(b) If the interval between the date of the statement and the date of the subsequent transactions is reasonably short—not to exceed, say, four months;

"(c) If the accountant, after due inquiry, or, preferably after actual investigation, has no reason to suppose that other transactions or developments have in the interval materially affected adversely the position of the company; and

"(d) If the character of the transaction to which effect is given is clearly disclosed, *i.e.*, either at the heading of the statement or somewhere in the statement there shall be stated clearly the purpose for which the statement is issued.

"The accountant should not *certify* a statement giving effect to transactions contemplated but not actually entered into at the date of the certificate, with the sole exception that he may give effect to the proposed application of the proceeds of new financing where the application is clearly disclosed on the face of the statement or in the certificate and the accountant is satisfied that the funds can and will be applied in the manner indicated."

Balance-sheet, Preliminary: A balance-sheet prepared from incomplete data and usually containing estimates subject to revision when complete data are available. Synonym: tentative balance-sheet.

Balance-sheet, Revenue: A term used in municipal accounting descriptive of a statement setting forth current assets and liabilities—specifically, cash and amounts due from current revenues, and the liability due to appropriations.

Balance-sheet, Suggested: This term applies to form more than to figures. It is descriptive of a balance-sheet subject to review and modification or amplification before receiving final approval for its publication as an official statement. It is usually based upon complete data as distinct from a preliminary or tentative balance-sheet, which is almost invariably based upon incomplete data.

Balance-sheet, Tentative: A statement prepared in the form of a balance-sheet, but not necessarily from the books of account, intended to show the conditions which will exist if certain changes be made or if certain assumptions be true. The meaning is vague but, in general, the term means that the auditor preparing the statement takes no responsibility for the correctness of the figures. The name implies that the statement requires verification and is not to be taken as a statement of facts known to exist.

Balance-sheet, Uncertified: A balance-sheet which does not bear the certificate of an independent auditor (or auditors).

Balancing, Sectional: If a general ledger be divided into several sections from each of which a trial balance is taken, the operation is known as sectional balancing. The ledger may be divided according to the nature of the accounts—*e.g.*, purchases, sales, etc.—or it may be divided alphabetically. In either case the cashbooks and journals from which postings are made contain columns classifying the items in accordance with the divisions observed in the ledger.

Betterment: An expression used chiefly in the United States to indicate an expenditure for the improvement of property, especially to distinguish such expenditures from those made for repairs. The latter merely replace wear and tear on property, while the former constitute improvements or additions. If an additional story be added to a building, it is a betterment; if a wooden roof be replaced by one of a similar character, it is a repair, but if the new roof be of a superior quality, such as slate, the cost thereof is divisible in two parts—the cost of a new wooden roof is a repair and the additional sum necessary to pay for the slate roof is a betterment.

Bill: (1) An invoice covering services or goods sold.

(2) A word used, more especially in the expressions "bills payable" and "bills receivable," as a survival of past practices when bills of exchange were in more common use. Today "notes payable" and "notes receivable" are generally used and the word "note" should, as a rule, be substituted for "bill."

Bills Receivable: These should be divided to show separately those which have been received in the ordinary course of business and those received from other sources.

In a balance-sheet, the unqualified term "notes receivable" should include only notes which are free from all liens and those which are not yet due.

This term is sometimes used to designate notes receivable, especially in English practice; but, as the term "bill" is applied to a variety of forms used in accountancy, it is not so definite as "note" and the term "notes receivable" (*q.v.*) is preferable.

Blotter: The book of original entry of a stockbroker. In other businesses it is a term which has now passed out of use except in country districts. It was a book, sometimes known as a daybook, in which all transactions were entered as they took place and from which the proper books of account were subsequently written. It was frequently kept in pencil and, although it was the book of original entry, was not generally regarded as forming a part of the regular books of account, but was referred to as a "waste book."

In stockbrokers' accounts the blotter is a formal book of account, being a cash journal with elaborations peculiar to the business.

Bonds, Debenture: Unsecured bonds. Promissory notes in the form of bonds. Certificates of debt issued by a corporation.

In Great Britain the term has a wider significance as is indicated in the definitions of "debenture stock."

Bonds, Income: Bonds that are a lien on the net income (earnings) of a corporation. They receive interest only when it is earned and are little better than preferred stock. All fixed charges and obligatory payments, including taxes, must be met before anything can be paid on income bonds, but they are entitled to interest up to a specified amount before a dividend can be paid on stock, either preferred or common.

Bonus: A sum paid over and above what is required to be paid. Frequently when preferred stock is sold, common stock is given with it, and improperly called "bonus stock." The common stock received is actually a part of the consideration received for the money paid.

A similar condition exists when stock is given as a bonus with bonds. In each case the fact that, in effect, a discount has been allowed, is obscured.

Bonus, Cash: The name given to payment of compensation in excess of the agreed rate. It may have some of the character of a true bonus—a charity—but it usually represents a form of wages tacitly understood to be payable.

Bookkeeping: The work of recording systematically the transactions of an undertaking so that the profits, losses, assets and liabilities may be ascertained with the minimum of work and maximum of correctness. The ascertainment of profits includes cost finding. The chief purposes of bookkeeping are defined by Lisle as follows:

(1) To record the effect of any one transaction.

(2) To record the combined effect of all transactions within a given period so that the financial position of the concern at the end of the period may be ascertained.

Book Value: The value at which any asset appears on the books of a concern whether it represent cost, cost less depreciation or appraised value.

The book value of each share of (common) capital stock is the sum of the capital stock account (after deduction of all preferred stocks at their par value or at liquidation value if without par value) plus surplus accounts and undivided profits, divided by the number of shares of (common) stock outstanding.

Books of Original Entry: Those books in which the various transactions are formally recorded for the first time, such as the cashbook, sales journal or purchase journal.

Where machine bookkeeping is used, it may happen that one transaction is recorded simultaneously in several records, any one of which may be regarded as the book of original entry.

Budget: Originally the budget was the statement submitted by the chancellor of the exchequer to the house of commons in England, containing an estimate of the probable income and expenditures for the coming year and a statement of the taxes necessary to meet the excess of expenditures.

The term is now used to describe any estimate of future receipts and expenditures for a government, a corporation, partnership, person, family, community or association.

Burden: The burden is that part of the cost of manufacturing which is not directly productive. Thus, electric current is directly productive in such operations as the electrolytic production of caustic soda and chlorine, and in such a case is not considered as burden. In other cases electric current may be of minor importance and included in burden. Generally speaking, burden is indirect cost of manufacture and is composed of items that do not vary with variations in output.

In Great Britain it is generally known as "oncost." Burden is frequently subdivided into classes, such as expense burden, factory burden, shop burden, etc., where the qualifying word indicates the general nature of the expenses included.

CAPITAL: The funds belonging to the partners or shareholders of a business, invested with the expressed intention of their remaining permanently in the business.

As used in accountancy, capital is the sum of money which the stockholders, owners or proprietors have invested at any time in a business venture. It implies ownership and does not, without qualification, include borrowed money.

The following terms used with the word "capital" do not have accepted technical meanings and therefore it is not considered that their use as accounting terms is justified: active, available, equated, fixed, general, landed, loan, net, non-landed, operating, quick.

Capital, Authorized: The amount of capital stock that may be issued, authorized by the certificate of incorporation or charter.

Capital, Called-up: The amount of capital authorized may not at once be needed. Some part of the stock may remain unissued or stock may be issued on such terms that only part of the price is paid at once, the remainder being subject to call when needed. The amount paid in, plus any calls remaining unpaid, constitutes the called-up capital.

Capital, Circulating: This expression appertains to economics rather than to accounting. It has been defined as " wealth used in the production of commodities, the efficacy of which is exhausted by a single use such as (a) raw materials and (b) cash for the payment of wages collectively used to produce a manufactured article. The term ' circulating ' is derived from the circumstance that this portion of capital requires to be constantly renewed by the sale of the finished articles and re-purchase of raw materials, etc." The term is used by Hatfield as synonymous with " floating capital."

Capital, Debenture: Capital derived from the issue of debentures.

Capital, Departmental: Some corporations divide their investment among several departments, the intention being to ascertain the relative return on capital from each department. In some cases interest on such capital is charged to departments.

Capital Expenditures: Investments of cash or other property or the creation of liability in exchange for property to remain permanently in the business, especially land, buildings, machinery and equipment. Permanence is the chief characteristic distinguishing these investments from current expenditures.

Capital, Fixed: A rather vague term, used in economics more than in accounting, meaning capital invested in plant, buildings and other fixed assets.

Capital, Floating: Equivalent to " circulating capital." Capital invested in current assets.

Capital, Invested: This term does not mean the amount of capital originally invested, but the whole sum of capital originally invested plus the amount of accumulated profits retained in the business. Under the profits-tax laws of earlier years " invested capital " was a highly technical term, the exact meaning varying somewhat from year to year. It might include goodwill not on the books and might exclude assets that were on the books.

Capital, Issued: This is more properly called " capital stock issued." It means that part of the authorized capital represented by the shares of stock actually issued for cash or other consideration.

Capital, Issued and Subscribed: Whereas the term " issued capital" should apply only to capital stock actually issued for cash or other consideration, excluding treasury stock, corporations sometimes authorize the issue of capital stock, go through the form of issuing certificates for the whole amount, sell part and retain part in the treasury, calling the treasury stock issued stock. In such cases the phrase " issued and subscribed " means that part of the issue that has actually been sold, whether fully paid or not.

Capital, Negative: This term is concerned with economics, not accounting. It has been defined as follows: " Negative capital is composed of credit, such as the right to demand payment of a debit " and as " The amount of credit which a trader or firm can obtain." (See " positive capital.")

Capital, Nominal: The amount of capital represented by the par value or declared value of the issued stock. This term has a special application in income-tax laws, companies with nominal capital, deriving their income from personal services, being allowed special treatment. This was formerly of great importance when excess-profits taxes were levied.

Capital, Original: The amount of capital actually paid in, excluding increases due to the retention of any gains.

Capital Outlays: Synonymous with capital expenditures (*q.v.*).

Capital, Paid-in: The amount of capital actually contributed, in cash or assets, by the stockholders of a corporation.

Capital, Paid-up: More properly, " capital stock, paid-up." See " capital, called up." This differs from called-up capital in that it excludes calls that have not been met and includes capital that may have been paid in advance of call.

Capital, Positive: This term applies to economics, not to accounting. It has been defined as " that which consists of material assets, *i.e.*, cash, buildings, land, stock, plant, machinery " and as follows: " Positive capital is represented by money, land, buildings, stock in trade and all material objects."

Capital, Registered: The amount of capital authorized by the certificate of incorporation of a company, registered with the secretary of state or other designated authority.

Capital, Share: Capital represented by shares of capital stock.

Capital, Stated: The definition of this term has been the subject of heated controversy, but it may be said that in the case of corporations with stock of par value it is the face value of the capital stock issued, and that in the case of companies having stock without par value it should be the total amount received, in cash or other assets, for the shares issued. Unfortunately the laws of the several states differ widely on this subject, some states permitting a part of the amount received for stock issued to be set aside not as permanent capital but as surplus, even as surplus from which dividends may be paid. In such cases the stated capital is subject to restrictions and regulations imposed by the laws of the various states and may be said to be that portion of the proceeds of the sale of capital stock which the directors declare to be the capital of the corporation.

Capital Stock: The share capital of a corporation, divided into shares and owned by persons, real or artificial, known as the stockholders.

Capital Stock, Authorized: The amount of capital stock that may be issued, as authorized by the certificate of incorporation or charter.

Capital Stock, Common: The common stock of a corporation is that class of stock which is not by its terms limited in the rate or amount of its participation in the form of dividends in any distribution of earnings after provision has been made for full dividends on all classes of stock which are by their terms subject to limitation in this respect. It represents the ownership of the corporation.

Capital Stock, Cumulative: Stock (usually preferred) on which the dividends, if unpaid, accumulate as a prior claim upon surplus or profits and, generally, in the event of liquidation, upon assets before any distribution by way of dividend or otherwise to the common stock.

Capital Stock, No-par-value: Capital stock in which the shares have no specified value. The book value of such stock is determined by subtracting from the total assets the total liabilities, plus the par value of preferred stock, if any, or the liquidation value of preferred stock without par value. The remainder divided by the number of shares outstanding gives the book value of each share.

Capital Stock, Preferred: Capital stock which has a claim, or claims, which must be satisfied before common stock may participate in any distribution. Commonly this preference gives a first claim to dividends up to a stated percentage and also (but not invariably) to a preference over common stock in the distribution of assets, when such occurs. In this computation preferred stock is to be treated as a liability. The laws governing no-par-value stock differ widely in the several states. A full knowledge of the rights and duties of companies with no-par-value stock can be gained only after protracted study of conflicting laws.

Capital Stock, Subscribed: The amount of capital stock which investors have agreed to purchase, but for which they have not fully paid.

Capital Stock, Treasury: Capital stock which has been issued by a corporation and subsequently acquired by that corporation through gift, exchange or purchase. It carries no voting powers and does not share in dividends. In a balance-sheet it should be deducted from the total stock outstanding.

Capital Stock, Unissued: That portion of the authorized capital stock of a corporation which has not been issued.

Capital, Subscribed: Upon the formation of many corporations the entire amount for which the stock is sold is not immediately needed. In such cases those acquiring stock subscribe, or agree to purchase, a certain amount of stock. Usually a part of the purchase price is paid at the date of subscription and the remainder either at an agreed subsequent date or in instalments when called.

Capital Sum: This is a legal rather than an accounting term, but it is used by accountants with its legal meaning. It refers to the original amount of an estate, note, fund, mortgage or other financial entity as distinguished from income, profit or other accretion not of a capital nature. Thus, of an instalment mortgage it is said that so much of an instalment is on account of interest and so much on account of the capital sum. But if an interest-bearing obligation be renewed for a sum including both the amount of the original note and unpaid interest thereon, its full face value may become the capital sum.

Capital, Uncalled: The amount that stockholders may be called upon to pay for capital stock to which they have subscribed, in addition to the amount for which demand has already been made.

Capital, Unissued: (See "capital, issued.") That part of the authorized capital which has not yet been issued for cash or other assets.

Capital, Unproductive: This term applies in economics, not accounting. It describes capital that is invested in assets not producing any income either directly or indirectly, such as vacant land, mines not operated, etc.

Capital, Watered: Where corporations have issued stock greatly in excess of the intrinsic value of the assets which it represents the stock is said to be watered. In many—perhaps a majority—of cases the corporation issuing watered stock is a holding company, owning the stock of one or more other companies, so that the disparity between the stock it issues and the tangible assets which are the ultimate basis for the issue is not readily apparent.

Capital, Working: The capital that is available for current use in the operation of a business—substantially, the excess of current assets over current liabilities.

Cash: In accountancy, and especially in balance-sheets, this word, if unqualified, may refer to three chief classes of items:

First, currency in the possession of the concern.

Second, cash deposited with banks, usually stated as "cash in bank."

Third, cash deposited with banks for some special purpose or subject to specified conditions. Such items should always be shown separately from the other classes which are available for any ordinary purposes.

Cash, Available: Cash available for general current purposes. Cash which is held for a specific purpose, such as a trust, or for redemption of specified liabilities, should not be shown in a balance-sheet under the unmodified head of "cash" but should appear as a separate item with a description showing its purpose.

Cash, Imprest: (See "fund, imprest.")

Cash in Bank: A generally accepted term to describe the balance standing to the credit of a concern after deducting all cheques which have been paid out. Formerly the usual wording was "cash deposited with bankers," which is a more accurate description of the asset, but current usage favors the shorter term.

Cash, Petty: A sum of money, either in the form of currency or in that of a special bank deposit, placed with or to the order of an employee, from which to make payments of comparatively small amounts which must be made immediately. All payments are subsequently refunded by cheques from the general cash account. The amount varies in different circumstances from a few dollars to thousands of dollars. (See "fund, imprest.")

Certificate, Auditor's: This refers to a statement, signed by the auditor, purporting to express his opinion:

1. As to the financial condition of a business,
2. As to the results from operations of a business, or
3. As to any facts which the auditor, in his professional capacity, has investigated.

It is sometimes sent to stockholders, bankers, note-brokers, etc., who are not entitled to detailed information but are entitled to assurance that the financial statements submitted to them are substantially correct. Its function is to assure the recipient of a certified statement that

1. All essential facts are shown thereon, and
2. All the facts shown are substantially correct.

Certificate, Inventory: A certificate furnished to auditors by the officers of a concern who have actually taken a physical inventory. It should state

1. The names and official positions of those signing it;
2. The date and total amount of the inventory;
3. That the quantities shown are correct and how they were determined;
4. The basis on which the items are priced;
5. Whether or not the inventory contains any goods on consignment and/or any goods in transit;
6. That all care has been taken and that, to the best of the signers' knowledge and belief, the results shown are accurate.

Certificate of Deposit: A receipt for deposit of funds in a bank. There are two classes:

1. Time certificates payable at some specified time or date;
2. Demand certificates, payable on presentation. They are negotiable instruments bearing interest.

Certificates of Indebtedness: In accountancy this expression is generally used to designate short-term notes given by a concern. They are usually unsecured and the holders have a general creditor's recourse against the assets.

The term is also used to designate short-term notes issued by the federal government to care for current requirements of the United States Treasurer.

Certificate, Qualified: An auditor's certificate in cases where the auditor is unable to certify to the correctness of certain items, or when in his opinion statements do not accurately or fully reflect actual conditions, or where the information furnished to him is not considered sufficient to enable him to reach a conclusion.

Certificate, Unqualified: A certificate by an auditor that the accounts referred to in the certificate are, in his opinion, correct and reflect accurately the conditions or the transactions or results shown.

Charges: Synonymous with "debits."

Charges, Bank: These include the various items charged by banks to their customers, for collections, protests, etc., but do not include those representing interest or discount.

Charges, Carrying: In accountancy this term usually refers to the charges necessary to the carrying of property, especially taxes on unproductive property. The inclusion of interest and other items varies according to circumstances and according to the opinion of those concerned. This is a matter on which wide differences exist.

The term is also used to designate:

1. Interest charged by brokers to customers for carrying securities on a margin.
2. The cost of carrying commodities in storage, such as rent, insurance, haulage, etc.

Charges, Departmental: In cost accounting, that portion of the overhead or burden which is chargeable to various departments for service charges or for supplies which do not go through the material accounts.

Charges, Direct: Payments or charges for labor, material, etc., expended upon a definitely determined unit of product.

Charges, Fixed: Charges which are more or less inevitable, which remain comparatively unchanged during long periods of time and do not vary with the volume of business, such as interest on bonds, debentures, etc.

Charges, Overhead: Synonymous with "burden" and "oncost."

Check, Internal: A system under which the accounting methods and details of an establishment are so laid out that the accounts and procedure are not under the absolute and independent control of any one person—that, on the contrary, the work of one employee is complementary to that of another—and that a continuous audit of the business is made by employees.

Cheque (Check): A bill of exchange drawn on a bank payable on demand; a written order on a bank to pay on demand a specified sum of money to a named person, to his order, or to bearer.

Close Books, To: To transfer the various gains and losses from the nominal accounts themselves to a profit-and-loss account, or to a trading-and-profit-and-loss account, and to make necessary adjustments to enable the final accounts to be prepared. It may be said that the closing entries made in the process of this work transform the trial balance into a balance-sheet.

Columnar System: A system of bookkeeping by means of columns appropriately ruled in the books of account, which makes possible a continuous analysis of the items entered, saving the labor of future analysis and reducing the labor of posting. The totals of the several columns and not the individual items are posted periodically to their respective accounts in the ledgers.

Commission, Selling: An amount paid to an agent or agents for making sales. The term may appear in a profit-and-loss statement as an expense written off, or it may appear on a balance-sheet as a direct liability which will become payable when certain contingencies occur, as, for example, in the case of real-estate concerns where commissions are payable as collections are made on deferred-payment sales shown among the assets.

Commissions: As used in accountancy, remuneration to an employee, broker or other agent, usually based upon a percentage of the sum involved.

Company: In addition to the terms hereafter defined, 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.

Company, Affiliated: A company which by reason of stock ownership is permanently controlled by another company; the name indicates that the company is the " child " of the " parent " or controlling company. It is not necessary that the entire issue of the company's stock be owned by the controlling company.

Company, Allied: A company that by reason of stock ownership or contracts, or for other reasons, carries on operations which are supplementary or complementary to those of some other company or companies. There may be intercompany stock ownership, but this is not essential. The stock of the several companies may be owned by the same interests, or the operations may be such that the by-products of one company are the raw material of another. Thus, in the production of electrolytic alkali, hydrogen gas is a by-product that must be used on the spot; hence the existence of an allied company using the hydrogen to produce synthetic ammonia.

Company, Appraisal: A company engaged in appraising physical properties. Such appraisals are frequently made the basis upon which valuations of fixed assets are determined for the purpose of issuing stock or obligations against them.

Company, Associated: An associated company differs little from an allied company. The term " allied " indicates a rather more permanent alliance than the term " associated," but the difference is slight.

Company, Bonding: A company engaged in the business of insuring employers against losses through dishonesty of employees. Some bonding companies also act as guarantors for contractors who have to give bonds for due performance of contracts. Other forms of bonds, as bail bonds, etc., may also be given by a company of this sort.

Company, Controlled: A company which, by reason of stock ownership, is controlled by another company. A majority of voting stock must be owned by the controlling company.

Company, Controlling: A company owning a majority of the voting stock of another company over which it exercises control by virtue of that stock ownership.

Company, Finance: A term used to denote several different types of institutions. It is sometimes employed in this country to denote (1) a holding company, (2) a commercial credit company. In Great Britain the term usually refers to a company dealing in corporate securities.

Company, Holding: A company the principal business of which is to hold the stock of one or more other companies. A holding company may also be directly engaged in business on its own account, but in so far as it is a " holding company " its business does not include active operations. Some holding companies control the operations of some or all of the companies whose stocks they hold. Some take no part in controlling the operations of other companies, but act as investors only.

Company, Industrial Life (should be " Industrial life-insurance "): A life-insurance company engaged in the issuance of small policies, the instalments of the premiums on which are payable at short intervals, the arrangement being intended to facilitate the purchase of life insurance by relatively poor people, such as industrial workers, who receive their income at short intervals—weekly, monthly, etc.

Company, Limited; Company, Limited Liability: A variety of companies organized under the laws of Great Britain, her colonies, or of other nations that have adopted the plan under which such companies are authorized. The capital is represented by stock of a stated value per share and the liability of stockholders in respect of such shares is limited to the stated amount per share. In the United States most corporations are, in effect, limited liability corporations, but the term "limited" is not often used in their titles.

Company, Merged: A merged company can not exist. The term is used in speaking of a company that once had a separate existence but now has lost its identity and become an indistinguishable part of a combination of two or more companies which have merged.

Company, Non-operating: In the course of development of railway systems some small lines have been absorbed in such a way as to leave the small company existing, the large system operating its track in conjunction with other lines and paying to the stockholders of the smaller company agreed dividends. The smaller company becomes a non-operating company.

Company, One-man: A term used in describing a company controlled and owned entirely, or nearly so, by one man. It is slang.

Company, Operating: (See "company, non-operating.") Any company actively engaged in business is an operating company. The term, while not well defined, is commonly used to describe a company which operates the plant of another company, either in addition to its own plant or alone.

Company, Parent: Literally, a company that has children. A company that through stock ownership permanently controls one or more other companies. A parent company may own or control companies which it has originated (true children) or companies whose stock it has acquired (adopted children) or both. It may, and often does, have fully owned subsidiaries, partly owned and fully controlled subsidiaries, allied companies and associated companies. There are certain prominent pipe-line companies, for example, whose stocks are owned in equal parts by two or more other allied companies, and others whose stock is not owned by other companies but are necessarily associated with them. The question of classification of the interests of a parent company in subsidiary, associated and allied companies is an extremely difficult one.

Company, Proprietary: Another name for "controlling company" or "parent company." A proprietary company is not an operating company.

Company, Public-utility: A company engaged in rendering to the public service of a kind making it essential to obtain a franchise. Such operations are necessarily of a monopolistic character, and are therefore subjected to legal restraints from which fully competitive business is exempt. Gas, water and electric-current supply, railroad transportation, inland water transportation, power service where current is passed over highways, telephone service—all are activities described as those of public-utility companies.

Company, Safe-deposit: A company maintaining vaults in which valuables may be deposited. The depositor has his own compartment, and the safe-deposit company does not take the valuables into its custody or have any knowledge of what has been deposited. Its duty is done when it has preserved the depositor's compartment from disturbance. There are also cases in which safe-deposit companies store silver, paintings, etc., in their own vaults, giving receipts for the articles and becoming responsible for their care. The business of these companies differs somewhat from that of the safe-deposit companies whose business is carried on as companies allied with public banks, but there is no distinction made in the descriptive terms applied to them.

Company, Stock: A company the capital of which is represented by shares of stock—an incorporated company, a limited-liability company, a joint-stock company, etc.

Company, Sub-; Subsidiary: A company, the voting stock of which is fully owned, or nearly so, by another company, to which the first company is a subsidiary. To qualify as a subsidiary company for the purpose of rendering consolidated income-tax statements it is necessary that the control be firmly fixed in the hands of the controlling company. Intercompany stock ownership, ownership by the same persons and some other considerations must be given weight. Reference to the latest tax regulations and decisions is recommended, as the rules are subject to revision.

Company, Transportation: A company publicly engaged in the business of transporting for pay either passengers or freight. The term is applied to steamship, railway, trolley, 'bus and taxicab lines, and probably will be applied to companies engaged in aërial traffic. Express companies, although transporting freight, are not called transportation companies.

Company, Underlying: In forming consolidations it frequently happens that an absorbed company has franchises, patents, or other rights that are not transferable and are necessary to the consolidation. The company having such franchises or rights is kept alive, all its stock being owned by the consolidation. Such a company is an underlying company.

Company, Unlimited: A company each of whose stockholders is liable for all the debts of the company, as a partner is liable for the debts of a partnership.

Consideration: The price or subject matter which induces a contract.

Consignments: Goods shipped by a consignor to a consignee for the purpose of sale, the title remaining in the consignor, and the consignee, if he accept the shipment, being accountable.

Consolidation: Synonymous with "merger"—with this distinction, generally recognized, especially under New York statutes, that in a merger one of the existing companies continues, others having been merged into it, whereas in a consolidation the constituent companies are "wedded" forming a new company, the latter inheriting all the rights and assuming all the obligations of the former.

Continental System: The system of stating accounts which is followed in the United States and in which the assets appear on the left side and the liabilities and capital on the right side of a balance-sheet.

In Great Britain, this order is reversed. Both systems originated under the old "balance account" to which all items remaining in the ledger were transferred. In England the form of balance-sheet is based on the balance account when it is opened, while the American method is based on the balance account at its closing. (See "balance-sheet.")

It is not a "system," but, rather, an unimportant detail.

Contract, Firm Sale: A firm sale contract is one which obligates the seller to deliver to the buyer at some stated time the merchandise described as to quantity, quality and price, in the accepted order, and obligates the buyer to pay to the seller the price specified in that order.

Corporation: An artificial entity created by law for specific purposes, the limit of whose existence, powers and liberties is fixed by its charter.

Corporation, Affiliated: Same as "Company, affiliated."

Corporation, Business: A corporation engaged in buying and selling or manufacturing and selling merchandise. The term is of more importance in Cuba and some other Latin American countries than in this country, as there taxes are imposed differently on corporations classed as business corporations. A corporation building roads for profit would be classified, in such countries, as a business corporation, and taxes would be assessed accordingly.

Corporation, Close: A corporation the stock of which is held in few hands and not freely sold. The restraint on sale may be provided in the by-laws of the corporation, by definite contract between the stockholders or by a general understanding among them. In most close corporations the restraint is a "gentlemen's agreement."

Corporation, Controlled: Same as "Company, controlled."

Corporation, Controlling: Same as "Company, controlling."

Corporation, Eleemosynary: In general, a corporation organized not for profit but for the purpose of giving assistance to people in need. Perhaps the most familiar 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 specified.

Corporation, Financial: The term includes banks, trust companies, insurance companies, building-and-loan associations and other similar corporations.

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

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, 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.

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, Private: A corporation created for the private benefit of the collective members of the corporation to promote their financial, social or religious interests.

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

Corporation, Public-service; Corporation, Public-utility: Same as "Company, public-utility."

Corporation, Quasi-public: A corporation operated with private capital and for profit, but for purposes in which the public has a direct interest, such as railroads, electric light, gas and water companies.

Corporation, Religious: A corporation formed to promote some religious object or to own property devoted to religious uses.

Corporation, Subsidiary: Same as "Company, subsidiary."

Cost, Cost Price: The terms "cost" and "cost price" are frequently regarded as synonymous but, although in certain cases this may be true, there is a distinct difference. Both are connected with the acquiring of something of value, but cost price usually includes also the idea of disposal of that thing, or, at any rate, a basis of disposal.

The price is the exchangeable value of a commodity and means the total amount which a certain thing has cost up to a certain time. It frequently includes the amount paid for an article together with other charges necessary to its acquisition, such as freight in the case of merchandise, or legal expenses in the examination of title in the case of real estate.

"Cost" does not involve the idea of disposing of the article. It is simply the expenditure of money or services or their equivalent. It is a far more general term and when used in accountancy is generally modified, as in the expressions "cost at plant," "C. I. F.," "cost of labor" or in such expressions as "work done at the public cost."

Also the term "cost price" may refer to the cost per unit; thus a lot of sugar may have a "cost price" of $5\frac{1}{4}$ cents, and a cost (for, the lot) of, perhaps, $420.

The note in the *Century Dictionary* is illuminating: "Nothing has any cost until it is actually attained or obtained; while price is the amount which is asked for a service or thing."

Costs, Indirect: Those charges, other than direct costs, which enter into the cost of manufacture, such as:

Indirect material, *e.g.*, waste, materials for repairs, etc.

Indirect labor, *e.g.*, the wages of foremen, inspectors, handling, etc.

Pro-rated charges, such as those for heat, power, light, etc.

Fixed charges, *e.g.*, taxes, depreciation.

Credit, Credits: 1. Trust or confidence. The ability to buy with a promise to pay, or the ability to secure title and to obtain property for immediate use although the payment is deferred.

2. In bookkeeping the term is applied to entries corresponding with or opposed to the debit entries. In the case of personal accounts, credit entries imply that a particular person is entitled to demand a stated sum or that his indebtedness is reduced by a stated amount.

3. In economics credit is regarded as negative capital, for it enables a concern having no positive capital to carry on through the capital of others.

Credit, Deferred: Revenue which is received within a certain period but is not properly a credit to the income for that period and, therefore, is deferred or postponed until a period following. (See "assets, deferred.")

Credit, Open: An open account to which purchases are charged without any note or similar instrument given therefor, usually subject to settlement at stated periods, *e.g.*, thirty days.

Credits, Frozen: Credits allowed to customers which can not be liquidated, or can not be liquidated without embarrassment. Credits which are no longer liquid.

DEBENTURES: Loans to limited companies bearing a fixed rate of interest, the principal being either repayable after a certain number of years or unredeemable during the existence of the company. Unredeemable debentures are generally issued by railway and like companies.

Debentures, Floating: Debentures which are secured by a floating charge on the company's property.

Debentures, Mortgage: Debentures which are secured on the company's property, constituting a charge upon the whole or a portion of the assets.

Debentures, Simple or Naked: Debentures where no security is given for payment of interest or repayment of principal.

Debit: A charge to a person or an account. In bookkeeping an entry corresponding with or opposed to a credit entry. An entry on the left side of a ledger account.

Debit, Deferred: That part of expenditures which is paid within a certain period but is not properly a charge against that period and, therefore, its transfer to profit-and-loss account is deferred or postponed until a period following.

Debt: That which is due from one person to another, whether for money, goods or services and whether payable at the present or at some future time.

Debt, Floating: (1) The total current indebtedness of all kinds. The term is usually limited to indebtedness falling due in the near future. The period of one year is often selected, and in that case the term may include bonded or similar indebtedness falling due in the period named.

(2) That portion of the indebtedness of a corporation, person or firm which is not represented by bonds, mortgages, debentures or other similar obligation.

(3) The general or ordinary indebtedness.

Debts, Bad: In accountancy, uncollectible accounts, whether open book accounts or represented by notes.

Debts that probably will not be paid, wholly or in part, because of the inability of the debtors to pay or the inability of the creditor to enforce payment.

Debts, Book: Debts due to a concern which in the ordinary course of business have been entered on its books. They may consist of the price of goods sold, of expenses and of money lent by the concern, but, as a rule, they do not include balances with bankers.

Debts, Doubtful: Debts as to the collection of which there is uncertainty; some may be collected in full, some may be realized in part and some may prove to be worthless.

Debts, Fixed: (See "liabilities, fixed.")

Deductions from Income: Expenses which have been incurred but do not represent operating or manufacturing expenses or the purchase of materials or supplies. The common items are interest on bonds, mortgages, notes payable, etc.

Deferred Charges: These represent costs or expenses which are not charged against the income for the period in which they were incurred but are set up as assets which are to be amortized, although they may have no market value or tangible existence. They may include such items as discount on bond sales or mortgages, expenses for advertising from which the benefits extend over a future period, premiums on leases and other charges from which future benefit is expected. They should not be confused with prepaid expenses and should be shown separately.

Deficiency: Usually, the amount by which the resources of a business fall short of the liabilities, which may or may not include the amount of money invested by its owners. Thus, from the viewpoint of creditors, a deficiency would mean that assets were less than the outside liabilities. In accounting literature the term is not used except with qualifying words, as, for example, " deficiency of current assets compared with current liabilities," etc. Without these it means only the amount by which unspecified assets fall short of unspecified needs. Lack of sufficient funds to carry out a desired object may be described as a deficiency of cash for that purpose. In accounting statements, however, the word " deficiency " or " deficit " may occur without qualifying words, the accompanying figures supplying all needed explanation. Thus, in a balance-sheet, the word " deficit " is used alone. (See " deficit.")

In a general sense a deficiency is a failure to satisfy or a falling short of some requirement.

Specifically, when used in a balance-sheet, it is the amount by which the sum of the liabilities and the capital invested exceeds the total assets. It is the loss resulting from the operations up to the date of the statement.

Deficiency, Net: This means "deficiency." It is a redundant expression.

Deficit: In accounting, deficit has a more definite meaning than " deficiency." It is the amount by which the total assets of a business fall short of the total of all liabilities plus the invested capital. The expression is also applied in the form of " net deficit " to the net result for an accounting period when the result is the opposite of " net income " (as distinguished from " net loss " which is the opposite of " net profit") .

Deficit, Corporate: The deficit of a corporation. The statutes of the several states do not agree as to what is the capital and the surplus of a corporation, hence the " corporate deficit " is to some extent dependent upon constantly changing state laws.

Depletion: Depletion conveys the idea of emptying, reducing or exhausting the source of supply and is used chiefly

(a) In reference to natural resources, such as mines or timberlands, indicating loss in physical value properly commensurate with the removal of the product.

and less frequently

(b) In reference to financial strength, as, for example, the "depletion of the treasury."

Depletion differs from physical depreciation in that the former implies the removal of an asset for consumption, whereas the latter indicates a reduction in value caused by use or neglect.

Deposit: (1) Money deposited with a banker either as a general deposit subject to cheque or as a special deposit made for some specified purpose.

(2) The term is also used to designate securities lodged with a banker or other person for some particular purpose.

Depreciation: The basic idea conveyed by this word is indicated by its derivation—de, down, and pretium, price; that is, a reduction in price or value.

Depreciation is loss in physical or functional value of physical property, other than wasting assets, due primarily and chiefly to ordinary wear and tear which has occurred theoretically in the past and is not offset by adequate repairs and/or replacements. Obsolescence and inadequacy are included by regulatory bodies and taxing authorities as contributory causes, but it is more in accordance with fact to separate these two elements from ordinary wear and tear on the ground that the loss incident thereto does not usually accrue and can not be foreseen with any degree of accuracy. Depreciation, however determined, is at best only an estimate.

Unfortunately for the possibility of clear accounting terminology, depreciation is also commonly used to denote shrinkage in the conversion value of property (securities, real estate, etc.) or media of exchange (coins, bullion, or paper currency) and indicates in this sense a temporary or permanent loss arising from economic or related causes.

It is of interest that in some kinds of business, *e.g.*, long-distance telephone service, extraordinary casualties due to the action of the elements are regular visitants, and are provided for by a so-called "reserve for extraordinary depreciation" which may be estimated in advance quite closely by experience extending over a period of years.

Depreciation, Accrued: In accounting, the total amount of depreciation suffered by an asset during the period of its life up to the date at which the depreciation is computed.

Depreciation, Actual: The accrued depreciation as determined not by any theoretical provision but by physical inspection. It is not the difference between original cost and present value, but its amount may be stated as a percentage either of its original cost or of its replacement cost at present prices. Thus, if an asset is now worth 85% of the value of a precisely similar new asset its actual depreciation is 15% of either its cost or its replacement cost according to circumstances. Actual depreciation is not to be confounded with changes of value arising from rising or falling scale of prices.

Depreciation, Composite: Where depreciation is to be computed for a variety of assets, large in number, not wholly unrelated in character, small in individual value and of varying lengths of life, it is not unusual to adopt a "composite rate," chosen to represent a fair average for the whole, thus avoiding the burden of computing depreciation separately on each item. It is of limited application.

Depreciation, Extraordinary: Deterioration occurs at an unusual rate under such special conditions as those existing during the world war. High-pressure operation with hurried and make-shift repairs causes rapid decay. Climatic conditions also are responsible in many instances for rapid depreciation or disintegration. In addition to the usual depreciation rates extraordinary allowance is needed under such conditions.

Depreciation Methods: Annuity method. In this method, it is necessary to ascertain the amount of an annuity for the number of years of expected life of the asset that, at the expiration of that time, at some fixed rate of interest, will produce a sum equal to the cost or the replacement value of the asset. Then the amount of the annuity so ascertained is set aside each year to be invested for account of the depreciation fund.

This has one disadvantage: the money must actually be withdrawn from the business and set aside, building up unnecessarily large cash reserves when the money might with advantage be used in the business.

Sometimes the money nominally set aside is actually used for general corporate purposes. In that case the amount to be charged to operations each year is increased by an amount equal to the interest that would have been earned by the fund had the money been invested for its benefit. If this be done the amount set aside each year is the same as the computed diminution of residual value at the end of each year, assuming (1) that the actual service rendered in each year is the same and (2) that the present value of the future service to be rendered by the asset is computed at the interest rate on which the annuity value was based. The earlier years then bear the smallest actual charge. This plan is justified by its advocates on the ground that an asset giving, say, fifty years' service excels one giving forty-nine years' service by the present value of a year's service to be rendered fifty years hence. At the end of one year there will be an asset that will give forty-nine years' service. The charge for the first year is the depreciation so ascertained, that is, the value of one year's service to be rendered in fifty years.

Composite-life method. (See under " depreciation, composite.")

Diminishing-value method. Where such assets as office furniture, composed of many small items, are subjected to depreciation, it is common, in order to avoid the burden of keeping records for each item and to avoid numerous small reserves, to increase the percentage rate of depreciation, to deduct from the value of the asset the amount of depreciation instead of establishing a reserve, and in each year after the first to apply the depreciation rate to the cost of the asset diminished by the depreciation previously provided. This method charges the highest amounts in the earliest years, a result opposite to that of the sinking-fund method.

Fixed-percentage method. The computation of depreciation as a fixed percentage of the asset either on the " straight line " or " diminishing value " basis.

Reducing-balance method. Same as diminishing balance.

Service-output method. Working-hours method. Production-basis method. Production-unit-basis method. These are methods of computing depreciation of an asset by dividing its cost by the expected number of units of production resulting from the use of the asset during its life and by charging to operations a sum corresponding to the units actually produced. Similarly, where usefulness can not be measured in units of product, depreciation is based on service hours in use. In other cases depreciation may be computed so as to distribute original cost by charging it to operations as service of any kind is rendered.

Sinking-fund method. This method does not differ from the annuity method except that the funds are never used for general purposes. They are frequently invested in the purchase of bonds that have been issued against the assets on which the depreciation reserve is set up.

Straight-line method. The computation of depreciation in which elapsed time is the only factor considered. Cost is distributed over the expected life equally as to years, the entry being a charge to operations and a credit to depreciation reserve. The amounts so written off are not actually segregated and invested for the depreciation fund but are left in the general funds of the business. This is the plan prescribed by income-tax regulations.

Depreciation, Observed: An engineering expression which has no direct application in accounting. The term may be defined as the amount which measures the departure from normal operating condition, evident upon inspection of a property, and if expended for certain specific items of maintenance will, generally speaking, place the property in perfect operating condition. It is to be clearly noted that observed depreciation does not measure the difference between actual condition at the time of inspection and either original cost or reproduction-cost-new.

Depreciation, Physical: Similar to "actual" depreciation, but it does not include any depreciation due to exhaustion of earning power. It is the actual depreciation, judged by purely physical standards. Thus, the plates from which a book is printed may suffer physical depreciation from wear and further depreciation from the exhaustion of their earning power as the book sales decrease with the lapse of time.

Depreciation, Theoretical: Generally, depreciation as computed on some theory. There are many tenable theories of depreciation. The more important are described under "depreciation methods." Varying theories may assign widely varying residual values to assets long in use.

Deterioration: Loss of value through use, wear or other physical causes. The word does not apply to loss of value due to obsolescence. It implies that some of the original usefulness remains.

Disbursements: Payments in cash as opposed to cash receipts. They differ from expenditures in that the latter may include items which are payable but have not been paid.

Disbursements, Cash: (See "disbursements.")

Discount: (1) The difference between a sum to be due at a future time and its present value.

(2) An allowance made for the payment of a sum of money before it is due.

Discount, Bank: The discount charged by a bank for discounting a bill. It is in fact the simple interest on the face of the bill from the date of discounting to the due date.

Discount, Commercial: Synonymous with "bank discount."

Discount, Trade: Allowance or abatement made to those engaged in certain businesses and allowable irrespective of the time when the account is paid.

In a profit-and-loss statement, trade discount should be deducted from sales or from the cost of goods purchased.

Discount, True: The difference between the value of a note at maturity (its face value) and its present value. It is interest on the present value, while "bank discount" is the interest on the face of the note.

Discounts: All discounts are allowances, or abatements, and in commerce are divided into two classes:

Cash discounts,

Trade discounts.

Discounts, Cash: Allowances or abatements made on accounts if/when they are paid before the due dates, or within some stated period after the date when the debts were incurred.

In a profit-and-loss statement, cash discounts are usually included under the heading of "other income" or "other charges," as they are not profits derived directly from the operations of the concern.

Dividend: A pro-rata distribution to the stockholders of a corporation. Ordinary dividends are paid in cash out of earned surplus, but dividends out of surplus may be paid in stock (stock dividends), in securities or in kind. Corporations in liquidation and some corporations with wasting assets (mining companies or ship companies) pay dividends out of capital (liquidating dividends). The term dividend means a distribution to stockholders, pro rata, of some of the assets or stock of a corporation. Under income-tax laws a pro-rata distribution to stockholders may be taxed as a dividend even though on the books of the corporation it be treated as a loan or an advance. The deciding question in any distribution seems to be, practically, Is it a pro-rata distribution to all stockholders of a given class? If so, it is probably a dividend. When the term "dividend" occurs without other qualifying words a distribution of cash, out of surplus, paid pro rata to all stockholders of a given class is meant.

Dividend, Accrued: Strictly speaking, dividends do not accrue, the stockholder having no legal claim to dividends until they are declared. Although it is a loose expression, the term "accrued dividend" is sometimes applied to the amount of dividend at some usual rate that corresponds to the length of time elapsed since the last dividend was paid. The term is usually applied to dividends on preferred stock.

Dividend, Accumulated: Where preferred stocks receive cumulative dividends, and the payment has been passed for one or more periods, the accumulated amount to which the stock has a preferential right is loosely referred to as "accumulated dividend." It is an accumulated preferential right to dividends when they can properly be paid.

Dividend, Bond: Dividend paid in bonds instead of in cash or capital stock.

Dividend, Cash: A dividend paid in money as distinguished from a stock dividend or a dividend paid in property.

Dividend, Cumulative: Preferred stocks in most cases are entitled not alone to current priority over common stock in right to receive dividends at a specified rate, but also, if for any period dividends are not paid, they must receive at a later date all the arrears of dividends at their specified rate before any dividend may be paid to holders of common stock. Dividends on such preferred stocks are called "cumulative dividends."

Dividend, Declared: Before dividends are paid they are usually authorized by boards of directors. This authorization takes the form of a "declaration" of the dividends, and after the declaration the dividend authorized is said to have been "declared."

Dividends, Deferred: Dividends declared on stock but not payable until a specified time has elapsed or a specified event has occurred.

Dividend, Equalizing: This is not a term having a recognized general meaning. When corporations having different dividend dates are merged, or when a corporation changes its dividend date, it is usual to pay a special dividend of an amount which corresponds to the broken period between regular dividends. Other circumstances may make it desirable to pay special dividends in order to avoid inequities.

Dividend, Ex: Dividends are declared to holders of stock as shown by the stock record of the declaring company at a specified date. Stock sold after that date, but before the date of payment of the dividend, does not carry with it to the new owner the right to the declared dividend; it is paid to the old owner, who owned the stock at the specified date. Such stock is said to be sold "ex dividend."

Dividend, Extra: Corporations usually—but not always—have a recognized rate of dividends on common stock. This rate may be changed by the board of directors at any time. If the directors think that at any dividend date a greater dividend may be paid, but do not wish to commit the company to a continuance at the increased rate, they declare (a) a dividend at the established rate and (b) an extra dividend, the former setting a precedent and the latter being an isolated payment without any presumption that it will be repeated.

Dividend, Interim: Defined as "a dividend declared before the end of a financial period either out of the profits which are accruing or out of the balance of profits brought forward from the previous period."

Dividend, Liquidating: When corporations conclude business and their affairs are wound up it is the practice not to wait until all the assets are liquidated, but to pay to stockholders on account such money as may become available. These payments are made equally to all stock of any given class, and are called "liquidating dividends." They are not distributions of profit alone, but may represent both capital and surplus. To the stockholder they are return of capital up to the amount which the stock cost the stockholder.

Dividend, Non-cumulative: If dividends (on preferred stock) are not declared for any period and the amount so passed is not payable out of subsequent profits the stock is classified as non-cumulative-dividend stock. (See "dividend, cumulative.")

Dividend, Passed: If for any period the directors of a corporation do not declare a dividend, the dividend is said to be "passed."

Dividend, Property: A dividend paid in property, not in cash.

Dividend, Scrip: A dividend paid in some form of obligation of a corporation evidencing the right of the holder to receive cash or stock at a future date.

Dividend, Stock: A distribution to stockholders of additional shares of stock, the capital value of which is transferred from surplus to capital-stock account. Common stockholders may receive dividends in common stock or in preferred stock of their company. The stock distributed must be stock of the company paying the dividend. A distribution of stock of an outside company is not a stock dividend, but a dividend paid in kind. Stock dividends are not taxable income, because it is held that after such a dividend the stockholder has exactly the same interest in the company as before. Dividends paid in stock of outside companies are held to be equivalent to cash dividends—if the stock so received be sold the stockholder will still have the same proportionate interest in his own company as he had before the payment of the dividend. A stock dividend is to be distinguished from a split-up of shares, which is effected by changing the par value or the stated value per share without the transfer of any part of the surplus to capital account.

Dividend, Unclaimed: As stated under "ex dividend," dividends are payable at one date to stockholders of record at a prior date. If stock be carried on margin, and be sold ex-dividend, the dividend will be paid to the broker in whose name the margined stock stands and should be paid by him to the owner of the stock at the dividend record date. For many reasons this is often difficult, and those to whom the dividend is due may not claim it. Almost all stockbrokers and many banks have accumulated sums from these dividends for which owners have not been found. These funds are carried in unclaimed-dividends account.

Dividend, Unpaid: (1) A dividend that has been declared but not yet paid. (2) A cumulative dividend, on preferred stock, that has been passed.

Dividends on Preferred Stock: The rights of preferred stock have attracted much attention of late, because of two important decisions which are, on the surface, contradictory.

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 United States 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 the 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.

Dividends Payable: Dividends declared for which means of payment are available. Such dividends form a current liability.

Double-account System: A method of accounting used in Great Britain and defined as follows:

> "A system of accounting adopted where the capital of a company is contributed by the shareholders for a specific purpose, such as the construction of a railway or the acquisition of a gas undertaking, etc., the amount actually paid for or in respect of same being shown against the total capital raised in the form of receipts and payments, the balance only being brought into the general balance-sheet; in other words, the balance-sheet is divided into two parts. The double-account system is compulsory in the case of certain railway and tramway companies and all gas companies incorporated by special act of parliament."

The system is applicable, however, to many classes of companies which sink their capital in what are called "permanent assets," and it is frequently adopted by such companies.

The term is also applied to the method of ascertaining the profits of a concern, whereby the revenue or profit-and-loss account is kept entirely distinct from capital account, the excess of income over the expenditure properly chargeable against it being considered as profit.

Double Entry: A system of bookkeeping formerly known as the Italian method. It is based on the fundamental theory that every business transaction has a two-fold aspect and, therefore, a complete record is obtained by entering it twice, placing the amount to the debit of one account and to the credit of another account.

EARNINGS: That which is gained or merited by labor, service or performance; reward; wages; compensation.

The word implies the reward of personal effort, as distinct from return upon investment, *e.g.*, in the expression "earned income" or "unearned income." The word is applicable to persons rather than to corporations although as applied to the latter it is used, by virtue of tax laws, synonymously with "income."

In economics the word means the return of any economic good for an economic service and is applicable to supervisory services as well as productive labor.

In accounting, as distinguished from the ordinary meaning of wages or similar remuneration, the word means income derived from the operation of a concern rendering a service as distinguished from one selling commodities, but it includes also sales of merchandise incidental to the service rendered. It is used somewhat generally in a collective sense, as for example, "railway earnings," referring to both gross and net revenues from all operating sources and not from investments in securities and similar items. It is used also by public utilities but in a more restricted sense, being applied generally to gross earnings only.

Earnings, Average: An inexact expression indicating the weekly, monthly or yearly arithmetical average for a consecutive series of weeks, months or years of revenues from operation, either gross or net as further definition may indicate.

Earnings, Extraneous: An expression of doubtful validity. It would be better to speak of "extraneous income" or "extraneous profits." ("Earnings" being derived from the operation of a property, it appears desirable to restrict this term, if used at all, to the operation of the properties which represent the main business of an enterprise.) In the sense of "extraneous income" or "extraneous profits" the expression extraneous earnings relates to income or profits from sources other than the regular business of an enterprise, generally of a non-recurrent character or arising from conditions beyond the regular scope of a business. The determination of such extraneous sources of income is an important matter in investigations for financing, in order that only income from sources which can be depended upon regularly may be used as the basis for capitalization.

Earnings, Gross: Revenue from operating sources, before deduction of the expenses incurred in gaining such revenues.

Earnings, Net: Revenue from operating sources, after deduction of the operating expenses, maintenance, uncollectible revenues and taxes applicable to operating properties or revenues, but before deduction of financial charges and generally before deduction of provision for depreciation and retirements.

Earnings, Non-operating: (See comment under "earnings, extraneous.") If used in the sense of "non-operating revenues," this expression refers to revenues derived as a return upon the property of the enterprise in the hands of others or from its interest in property in the hands of others (*e.g.*, rents, interest on bonds, dividends on stock, etc.).

Earnings, Operating: Revenues derived from charges for services rendered, from the sale of commodities incidental to the services, from return on property used in the operations of the enterprise and from interest on current funds.

Entry: In bookkeeping, the record of a transaction in its appropriate book, record or place.

The word is also used in shipping in such phrases as customs entry, entry and clearance, etc.

Entry, Adjustment or Adjusting: Any entry made to correct errors or to bring several accounts into agreement or to reconcile one account with another.

Entry, Blind: An entry which, while it purports to explain a transaction, fails to do so. One which is not clear.

Entry, Cross: Entries on the opposite sides of an account which offset one another.

Entry, Original: Following methods once universally used, some Latin countries still admit only journals as legal books of account. Theoretically all entries are made in the journal at the time of the transactions, that book being the " book of original entry." Actually the entries are first made in other books—memorandum books called borradores, etc.—but these are not legally recognized. Similarly, accountants here speak of books of original entry, meaning cashbook, journal, sales and purchase books, blotters and any other books from which entries are carried directly or indirectly to the ledgers. Hence an entry on a cheque stub is not usually described as an original entry whereas the entry of the same payment made in the cashbook is an original entry.

E. & O. E.: An abbreviation of "errors and omissions excepted" which is placed at the foot of an invoice or statement for the purpose of reserving to the maker of the statement the right to amend the document should it prove to be incorrect.

Equipment: Anything that is used in or is provided for the business of a concern, such as automobile equipment, factory equipment, office equipment, etc., but in accounting it is generally distinguished from machinery and fixtures.

Exhibit: In accounting, this word has almost the same meaning as in law: an explanatory or illustrative statement accompanying a principal statement, such as a balance-sheet. In accounting, however, only statements, drawings, photograph and other paper schedules are called exhibits. Objects such as specimens of merchandise, weapons, garments, etc., described as " exhibits " in law, are not so classified by accountants. (See " schedule.")

Expenditure, Revenue: In the double-account system of accounting, used by railroads and similar enterprises organized under special charter in Great Britain, the expression " revenue expenditure " is used to distinguish operating charges incurred in gaining revenue from expenditure on capital account.

The expression " revenue expenditure " does not seem to have any recognized interpretation in American accounting. If it be held to mean any expenditure which is not capital expenditure, that involves consideration of the category into which expenditures for replacements fall.

Expenditures: Charges against income, whether actually paid or merely incurred; to be distinguished from disbursements, which represent actual cash outlays of every description.

Certain accounts, chiefly those of a fiduciary character, are described as " income and expenditure accounts," or " accounts of revenue and expenditure." The expression " budget expenditures " is also used in governmental accounting. It means the forecast of charges to be met out of budgeted revenues.

The expression " capital expenditures " means charges paid or incurred for additions to property and plant.

Expenses: A generic term seldom used without some qualifying word or expression.

Expenses, Accrued: Expenses which have been incurred up to a given date but have not been paid and, in some cases, are not payable until some future date.

Interest is one of the principal items—it may not be payable until the due date of notes or coupons, but a certain portion represents an expense of the business at the given date.

Expenses, Administrative: The expenses incurred in directing or conducting a business as distinct from the expense of manufacturing, selling, etc. The items depend upon the nature of the business, but usually include salaries of officers, rent of offices, office and general expenses, etc.

Expenses, Capitalized: Items usually charged to profit-and-loss which, for specific reasons, are added to the cost of property. Taxes on unproductive property, interest and some other charges incurred during the course of new construction or development are frequently so treated.

Expenses, Development: (See " promotion expenses.")

Expenses, Direct: The cost of labor and material and sometimes steam, power and electric current directly consumed in the manufacture of a product, as distinguished from overhead and other indirect costs which are pro-rated among several departments or subjects.

Expenses, Factory: The same as manufacturing expense.

Expenses, General: Those expenses of a concern which do not fall under the head of trading, nanufacturing or selling, but apply to the general management. Sometimes they are shown in a profit-and-loss statement as a separate group and sometimes they are included in the administrative expenses.

Expenses, Indirect: Expenses for overhead, departmental costs, etc., which enter into the cost of manufacturing in addition to the direct expenses.

Expenses, Manufacturing: The cost of manufacturing, other than material consumed and direct labor.

Expenses, Prepaid: The opposite to " accrued expenses " in that they have already been paid, although the benefits derived therefrom apply to the future.

Expenses which have been entered in the accounts for benefits not yet received by the concern. They represent an investment of working capital in advance of receiving service and include prepaid rent, prepaid interest, unexpired insurance and similar items.

Expenses, Promotion: Expenses incurred in the formation or development of a new business. As a general rule, if these are not carried into the profit-and-loss account, they should be amortized during a specified number of years.

The regulations governing income-tax administration impose limitations on this practice.

Expenses, Selling: All expenses incurred in selling, such as salesmen's salaries, commissions and expenses, advertising, selling-department salaries and expenses, samples, etc.

FIXTURES: Anything which is affixed to houses, buildings or lands so that it can not be removed without damage to the real estate.

The term is often employed in the expression "furniture and fixtures," and in this case the word "fixtures" usually comprises such articles as filing cabinets, etc., although strictly speaking they may not be fixtures.

Freight: In accountancy the term applies to all charges for the transportation of goods to a terminal, whence they are delivered by truck or dray.

Formerly the term applied to the sum payable for chartering a ship or for sending goods by ship, and charges for transportation by land were known as "carriage" and "cartage," respectively.

Freight, Outward: (a) Freight prepaid on goods shipped out by a concern. It may be chargeable to customers or may be deductible from sales, according to the terms of sale.

(b) Freight borne by a concern for its shipments of goods to customers, whether prepaid or paid by customers and charged back to the concern. In the latter case the amount unsettled at the date of the balance-sheet is shown on the balance-sheet as a deduction from the "accounts receivable."

Fund: A fund is, primarily, a sum of money. The several varieties of funds are sums of money intended to serve specific purposes. The word "fund" has been misapplied. Sometimes it is used improperly in place of the word "reserve." Thus, while a contingent fund should be a sum of money set apart for use in contingencies, careless persons, unfortunately, have applied the term to a contingent reserve, which is an amount reserved out of net worth to meet contingent liabilities. Philological considerations may be overridden by general usage, but in this case the misapplication of the word "fund" is far from general.

There are objections to uses of the word "fund" which allow it to appear as a substantive either on the asset side of a balance-sheet, representing a fund of money, or on the liability side, representing a reserve out of the net worth as shown by the accounts, intended either to meet an indefinite obligation or to compensate a difference between book value and actual value of assets. Good practice demands that the word "fund" as a substantive appear only on the asset side, to represent an actual fund of cash or marketable securities and that the word "reserve" be used only on the liability side, to represent part of what otherwise would be the net worth, reserved to meet depreciation of assets, losses in collections, indefinite but real liabilities, etc.

Fund, Accumulative (Cumulative) Sinking: A sinking fund (*q.v.*) which by its terms is set aside at stated intervals only when certain conditions are met within the specified periods, but in which the obligation is carried forward to the succeeding period or periods if the specified conditions are not met in any period. In any period in which the specified conditions are exceeded, the excess amount available for the sinking fund over the amount required to be set aside for such period must be applied, as far as may be necessary, to make good any deficiency in the amounts set aside for all earlier periods.

Fund, Contingent: The contingent reserve is often called "contingent fund." This is objectionable, as the word "fund" should be applied only to actual funds in cash or its equivalents or marketable securities. As it is frequently used the term "contingent fund," meaning contingent reserve, is a book liability, set up out of earnings or surplus, to cover liabilities believed to exist but not definitely ascertainable. The term should be restricted to actual funds, appearing on the debit side of the balance-sheet. "Funds" properly so called, are segregations of cash or its equivalent and are neither liabilities nor charges to operations.

A true contingent fund is a fund of money set apart for use in certain contingencies. Thus organizations of manufacturers assess their members to form a fund to be used to defend the organizations against legal interference, against outside competition and against deviations from their rules by their own members. Such a fund is properly described as a "contingent fund."

Fund, Continual Redemption Sinking: A fund provided out of cash, used to purchase. usually in the open market, the company's own obligations.

Fund, Endowment: A fund, provided usually by gift, the income from which is generally to be devoted to the ordinary purposes of a school, college, university, hospital, technical association or other non-profit-making institution.

Fund, General: The money of an educational, charitable or public institution available for general purposes.

Fund, Gratuity: A fund set aside for the payment of gratuities. A needless term.

Fund, Imprest: A cash fund, to be used for payment of minor disbursements, the amount of the fund being fixed. Imprest funds are often changed, increased or decreased, according to requirements, but are fixed at some round sum until further notice. Payments made from the fund are reimbursed from the ordinary funds of the enterprise, the vouchers then being surrendered. At all times the cash on hand, plus vouchers not reimbursed, must equal the nominal amount of the fund.

Fund, Industrial Accident: A fund set aside by an employer, usually on the basis of a percentage of the industrial payroll, to pay to injured employees compensation for personal injuries.

Fund, Insurance: Instead of paying insurance premiums to an insurance company, many large companies whose plants are widespread prefer to insure themselves. The amount of premiums that otherwise might be paid is set aside as a cash fund called "insurance fund." There is then a corresponding charge to operations and a credit to an "insurance reserve." The setting aside of the actual cash amount of the reserve in the insurance fund is necessary. The practice, sometimes followed, of using insurance-fund money as working capital is dangerous and should be discountenanced. If it be done the insurance reserve remains in the balance-sheet, but not the insurance fund. Similarly, the setting apart of the cash fund without the corresponding charge to operations and credit to an insurance reserve is improper. It distorts the income account.

Fund, Non-accumulative (Non-cumulative) Sinking: Sinking funds may be set up for purposes other than the retirement of outside obligations. Sometimes they are set up to retire preferred stock, and in such cases the provision is generally made only when the profits warrant it. If in any year the profits do not warrant the provision, or if, for any other reason, under the terms of the governing indenture the provision for any year is not made, two courses may be prescribed or followed. If the fund be non-cumulative a more favorable subsequent year will not be charged with the amount previously omitted, but only with one year's proportion. If, on the other hand, the fund be cumulative, the profits of a more favorable subsequent year must be devoted not only to the proportion for that year but also to the arrears not provided in all prior years.

Fund, Pension: A fund set aside to pay pensions, either to any who may be entitled to them under specific agreement or to those who may be selected by the persons in control of the fund. The varieties of pension funds are numerous, but they fall into three general classes. The first class of funds is that in which employers voluntarily set aside, in their unlimited discretion, money to be used to pay pensions, also in their unlimited discretion. The second general class is that in which both employers and employees contribute upon some fixed plan to build up a fund to pay pensions to those who may be entitled to them under the terms of an agreement. The third general class is that in which employees alone pay fixed contributions into a fund to provide pensions for themselves. All pension funds should be represented by actual cash set aside or by specific investments in securities or by both. Income from such money and investment should accrue to the fund.

Fund, Petty-cash: A sum of money put in the hands of some employee to make petty disbursements, to be accounted for from time to time. (See " imprest fund.")

Fund, Preferred Stock Sinking: A fund established to redeem preferred stock. Sinking fund preferred stock carries a requirement that the company, after payment of the preferred dividend, which is usually cumulative, shall appropriate annually a specified sum for the purchase and cancellation of preferred stock.

Such a fund is a redemption fund, rather than a sinking fund.

Fund, Redemption: (See " sinking fund.")

Fund, Renewal: A fund, set aside in cash or securities, to provide liquid assets available for purchase of new fixed assets to replace those about to be retired. If depreciation reserve is set up on the books this is not a charge to operations, but only a segregation of assets. Its appearance in formal accounts is needless and often inconvenient.

Fund, Reserve: Cash or investments withdrawn from the working capital of an enterprise and specifically identified as representing the amount of a reserve (general or otherwise) set aside out of surplus.

Fund, Revolving: A working fund provided to enable a cycle of operations to be carried out, the money being spent, recovered and spent again. Such funds may be used for such purposes as purchase of farm implements to be given to farmers, who in turn may pay for them when they can, perhaps in instalments; then more implements may be purchased for other farmers, and so on, ad infinitum.

One of the examples most frequently encountered is a petty-cash fund kept on the imprest system, from 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 on. This would be a revolving fund.

Fund, Rotary: Same as revolving fund.

Fund, Self-insurance: (See " insurance fund.")

Fund, Sinking: A fund provided by periodical instalments to meet obligations maturing in the future or to carry out some operation such as retirement of preferred stock.

When bonds or similar obligations are issued and the property mortgaged therefor is subject to fairly rapid depreciation, the security upon which the bondholder relies may shrink so rapidly that before the date of maturity it becomes insufficient. The sinking fund is provided to restore to the bonds their original safety. Sinking-fund moneys are not mere book entries but actual moneys (or such securities as United States treasury notes) set aside and not to be touched except for their intended use. They may be properly used to purchase some of the bonds for the protection of which the funds exist.

There are many issues of bonds secured by railway equipment, which have a relatively short life. In the majority of cases the protection afforded by a sinking fund is secured by issuing " serial " bonds, a portion of the bonds maturing each year or oftener. The net effect is the same as though a sinking fund existed, the money each year being spent for the purchase of a part of the issue. There is a difference in treatment of interest. When bonds are bought for a sinking fund it is usual to let them live to maturity, the sinking fund collecting the interest. If the sinking fund be provided at a fixed amount each year this results in a charge, for sinking fund and for interest, of an equal amount for every year. An issue of serial bonds causes the annual interest charge to diminish each year. Note that the interest charge is a charge against earnings but the sinking-fund provision is not so.

Fund, Strike: A fund raised by labor unions to aid striking workers.

Fund, Superannuation: Similar to a pension fund, but applicable only to those who become incapacitated by age. (See "pension fund," classes first and second.)

Fund, Trust: Generally a fund held by one party for the benefit of another. Under many wills trust funds are legally established in such a manner that trustees, named by the decedent, administer a part or all of his property for the benefit of the heirs. Trusts may also be established during their lifetime by persons desiring to allocate a part of their property for specific purposes, and in this case the property is transferred by them to trustees to administer. The trustees are independent of the maker of the trust under the terms of a deed of trust. Such trusts are designated "trusts created inter vivos." It is not necessary, however, to follow formal procedure to constitute a trust. For instance, moving-picture producers at one time demanded and received from exhibitors advance payments to secure adherence to annual contracts, the total so received being quite large. The exhibitors in certain cases claimed that the moneys were trust funds and that the producers had no right to mingle them with their own funds and use the moneys in their business. The practice has died out, but it illustrates the fact that trust funds may be of widely varying character, some being most carefully hedged with legal restrictions and some of such a character that there is doubt whether they are trust funds or not. For legally established trusts there are restrictions as to the kind of investment that may be made of the principal of the trust. There is an extensive literature, both legal and non-technical, dealing with trust funds.

Funds, Insufficient: A phrase placed on notices by banks that cheques can not be paid because the drawers of the cheques have not enough to their credit to meet the cheques.

Funds, Public: Funds of municipalities or other public corporations.

Funds, Working: (See "imprest fund.") Often funds supplied to branches to pay all disbursements, the total receipts of each branch being remitted to the head office. Such working funds are almost always imprest funds and are reimbursed in the same manner as other imprest funds. It is usual, however, for large purchases, especially of fixed assets, to be paid for directly by the home office, not out of the working fund. This fund, indeed, is intended to do what its name implies, namely, supply funds for the working of the enterprise, not for its establishment or extension.

Furniture and Fixtures: Under this item are included office furniture, desks and other similar fixtures. Sometimes it also includes such items as typewriters, calculating machines, etc., although it is usually better to keep these in a separate account, unless the amount involved is small.

GAINS: Increment of amount or degree. That which is acquired or comes as a benefit, profit or advantage, as opposed to a loss.

Goods: This term is principally used in Great Britain, where it means " all chattels personal, other than things in action and money."

The term is also used as synonymous with " merchandise " in the United States and the goods account corresponds closely to the merchandise account (*q.v.*).

Goodwill: Goodwill, in its commercial sense, is the present value of the right to receive expected future super-profits, the term " super-profits " meaning the amount by which the future revenue, increase, or advantage to be received is expected to exceed all economic expenditure incidental to its production, plus a normal profit.

Graphs: Abbreviation of the words " graphical chart." A graph is a pictorial representation or statement of a series of values all drawn to scale and presented in the form of a diagram.

Gross: A total amount which is subject to certain deductions. (See " gross profits," " gross sales," etc.)

HYPOTHECATION: The deposit of any securities or property as a pledge for the payment of a debt.

IMPLEMENTS: A term covering loose tools and appliances used in a business. Their character varies according to circumstances.

Imprest System: (See "petty cash.")

Improvements: Synonymous with betterments (*q.v.*).

Inadequacy: The basic meaning of this word is lack of size or of capacity in its broadest sense.

The word usually refers to plant and equipment which, although in good physical condition, is inadequate to carry the productive load required of it. This element of loss would be eliminated if it were found practicable to continue the use of the old unit in conjunction with other units of like or larger capacity.

The element of accrual in inadequacy is usually a matter of conjecture, but it can be better determined here than in obsolescence. The trend of business is the governing factor.

Regulatory bodies and taxing authorities provide that inadequacy is to be considered with wear and tear and obsolescence in determining depreciation rates.

Inadmissible: A term, used in the regulations applying to the revenue acts until 1921, to describe certain securities which under those regulations might not be included in invested capital. (See "assets, admissible.")

Income: Income is increase in wealth measured in terms of money, accruing or received during a given period. It arises from the use of capital or the rendering of personal service or both as distinguished from the return of capital. It includes earnings, gains and profits from any source.

In economics, income means the totality of the advantages enjoyed by a given community, in the form of either goods or services, during a stated period, as a rule one year, as opposed to the totality of goods in existence at a given moment.

As some confusion appears to exist as to the proper term to be used in describing the results of the operations of different classes of business, attention is invited to the following usages which, it is believed, are now well established.

Earnings applies to the operations of a concern rendering service, as distinguished from one selling commodities.

Profits applies to manufacturing and mercantile concerns.

Income, while sometimes used by corporations, frequently as applied to net earnings, applies more particularly to the compensation or profits received by a person.

Income, Accrued: Income arising from rentals, royalties, interest and from some other sources may be receivable at stated dates; if accounts be made up at dates other than those on which such income becomes due and receivable an amount of income corresponding to the length of time elapsed since the last due date may be taken up as accrued income. Dividends, even on cumulative preferred stocks, should not be taken up unless they have been declared.

Income, Community: This term is used to describe income that accrues jointly to two or more persons. Usually it is income that accrues to husband and wife. Under the laws of some of the states all income of husband and wife is community income, and federal tax regulations have allowed in such cases separate income-tax returns for husband and wife, each returning half of the total income.

Income, Deferred: This term is used in accounting to describe income which has been received but is really applicable to a future period.

Income, Earned: Strictly speaking, this is not an accounting term. It is, rather, an expression used in the revenue acts and regulations which arbitrarily describe certain income as "earned income."

Income, Estate: The income of an estate, as computed for the purpose of accounting to a court, may differ materially from the income as it would be computed for commercial purposes. Laws and court decisions vary in the several states, the treatment of dividends, especially stock dividends, often being at variance with both income-tax regulations and commercial practice. The importance of the divergencies of treatment lies in the fact that estates may have beneficiaries who receive only the estate income, and moneys that ordinarily would be received as income may, in the case of estates, be considered as accretions to capital.

Income from Investments: Income derived from money invested by a concern in securities or in some venture other than that for which it is organized. It forms one of the items included in "other earnings."

Income, Gross: The gross income from all sources which has accrued, but has not necessarily been collected, for a given period. It may include sales, rentals, interest, profits from the sale of capital assets and ascertained excess of reserves.

In general, income as computed before certain deductions are made. The deductions to be made vary according to circumstances, but generally they include overhead, management, financing and other indirect expenses.

Income, Joint Facilities: A term used in railroad accounting to signify the carriers' proportion of revenues from facilities operated jointly with other carriers, including union station companies.

Income, Miscellaneous: A term applied to sundry income not derived from the ordinary operation of a business, although it may be incidental thereto. Sale of junk, incidental rent of an unused part of a building, small amounts of bank interest and other odd items of income, not of enough importance to be shown separately, are thus classified.

Income, Net: The balance remaining after deducting from the gross income all costs, charges, expenses and losses which have accrued during a given period, together with the amount of reserves which may have been set up.

Dividends are not a deduction, as they are payable out of surplus, not directly out of income.

Income, Non-operating: Income that is derived from sources other than the general operation of a business. (See " operating income.")

Income, Operating: Income derived from the general operation of a business. The term is applied to the income of railways arising from the operation of the lines, and it excludes other income and also certain expenses. It is not synonymous with net profit, but rather indicates a stage in the profit-and-loss account where all direct cost of operation and all direct income from operation have been taken into the account, and nothing else.

Income, Other: When appearing in a profit-and-loss statement, this means income arising from some source other than sales or manufacturing or service for which a concern is organized.

It includes revenue from investments, interest, discounts and other non-operating sources and is separated from the operating revenues of the concern.

Sometimes it applies to large items of income not arising from the operations that have been set forth in detail in a profit-and-loss account. This classification of relatively large amounts without further explanation is undesirable.

Income, Taxable: Income as computed and subjected to tax under federal or state laws and regulations. These differ from commercial standards—indeed they differ in different years, as the laws and regulations change. Beside having certain rules for computing depreciation, depletion and other expenses, the federal and some state laws exempt interest on municipal obligations, some interest on federal obligations and in some circumstances dividends of domestic corporations, etc. All these provisions must be considered and corresponding adjustments made before taxable income is determined. Its total may be less or more than true income.

Income, Unearned: Synonymous with "deferred credits" (*q.v.*).

Increment, Unearned: An increase in value of property, due not to any effort exerted by the owner but to a rise in price brought about by other means. A representative example is found in increase of value of land, held but not improved by an owner, in a growing district, where increased demand for land is caused by the growth of general business or for other reasons.

Indebtedness: Synonymous with "liabilities" or "debts" (*q.v.*).

Insolvency: In a general sense insolvency as applied to a person, firm or corporation engaged in trade means inability to pay debts as they become due in the usual course of business. Under statutes, insolvency may be sufficient ground for the appointment of a receiver although no judgments have been obtained.

Instalment: (1) A part payment on the purchase price of any property, under agreement that the remainder of the price shall be paid in other instalments due at specified times.

(2) The term is also used to designate part payment on a debt or obligation of any kind.

Inventory: In general any list of articles or goods.

More particularly, in accountancy, a detailed list showing quantities, descriptions and values or prices of goods for sale or on consignment, of machinery, equipment, furniture or fixtures. In income-tax law, a list including only merchandise owned and held for the purpose of sale, excluding machinery, equipment, etc.

An inventory is required by law to accompany certain documents; *e.g.*, an executor or administrator or receiver must file an inventory with the court to which he renders account. Inventories are commonly attached to other documents such as bills of sale, leases of furnished houses, etc.

The use of the word "inventory" as practically synonymous with balance-sheet or statement of affairs is not recommended.

Inventory, Book: An inventory which is not the result of a physical examination but shows the goods that should be on hand as shown in the books of account. The value is computed at cost.

Inventory, Finished products: An inventory of goods which have been manufactured and are in condition for marketing.

Inventory, Perpetual: An inventory as shown by records kept for the purpose, usually on cards. In such cases a card is devoted to each variety of merchandise. On it are entered the quantity and price of all goods of that class received, while in other columns are entered similar particulars of all goods of that class which have been sold or consumed. The balance indicates the quantity which should be on hand.

Inventory, Physical: An inventory which is based on the actual count of all the articles.

Investigation: (1) An investigation, in the accounting sense, is a special examination of books and records, in the course of which the auditor selects and follows any avenues of inquiry that seem to him most useful in obtaining the specific information that is the object of the investigation. As a rule some parts of the audit are stressed and some passed lightly, and reference may be made to records and books other than those that are being investigated. The programme of work lies largely in the auditor's discretion and is varied during the course of the work whenever it seems wise to do so.

(2) An examination preliminary to financing, frequently including accounts extending over a period of years which may or may not have been previously audited, is commonly called an investigation.

Investigation, Special: The proper use of the word "investigation" in accountancy implies some particular object to be gained or particular result to be stated. It indicates something different from an audit and it is seldom necessary to qualify it by the addition of "special" or any similar adjective.

Investment: Any money laid out in a proprietary sense for the purpose of producing profit or benefit.

Investments, Current: These consist of money temporarily invested in securities of other enterprises, usually from a temporary excess of cash over current requirements, or in securities taken for the payment of debts and salable without impairment of the business of the concern.

Investments, Permanent: Funds invested in the ownership or part ownership of facilities or property, which can not be immediately liquidated, either on account of a special agreement or because they are necessary for the conduct of the business. They include investments in controlled or affiliated corporations and form a part of the gross investment of a business enterprise.

Invoice: A document showing particulars of goods sold, setting forth the date, quantity, description, price and total amount, together with the terms of sale. Additional information such as invoice number, name of salesman, method of shipment, etc., is often shown.

Several carbon copies may be made simultaneously, one copy following the original entry of the transaction in the records of the vendor and other copies being distributed according to the system of bookkeeping in use.

Invoice, Consular: An invoice used for shipments of goods from one country to another, showing the quantities, descriptions and prices of goods, with such other information as may be required by the country to which the goods are sent. The statement, when completed, is sworn to before a consular officer.

JOURNAL: Originally the journal was a daily record and the book of original entry in which all entries were transcribed from the "blotter" or "waste book." In certain foreign countries the use of a journal is mandatory and in some instances specific forms are prescribed.

In order to reduce the labor of entering every transaction in a journal and then posting to the ledger, it has become customary to use subsidiary books, such as sales journals, purchase journals and cashbooks, all of which are in fact portions of the journal.

As a result of this practice, the journal is often used only for entries which can not conveniently be made in one of the subsidiary books. These include adjusting entries, closing entries and profit-and-loss entries.

Even in foreign countries where journals are mandatory, it is customary for large concerns to use sales journals, purchase journals, cashbooks, etc., copying the entries in a condensed form into a formal journal so as to comply with the law.

Journal, General: This name is usually given to the book which is used for making entries such as adjustments, closing entries, etc., not conveniently made in any of the subsidiary books.

Journal Entry: Every entry in a journal is based on the principle that there are two sides to each transaction, both of which are indicated in every journal entry. One or more accounts are charged with a certain total amount while one or more accounts are credited with items which aggregate the same sum.

LEDGER: Although not a book of original entry, the ledger is the principal book of account in any system of accounts. In it are entered, individually, or by totals, all the transactions recorded in the various journals and cashbooks.

In the ledger, the transactions are classified under the headings to which they belong. Accounts are kept with those to whom goods are sold and from whom goods are bought, for the various investment and capital accounts and for all expenses and income.

In double-entry bookkeeping each transaction appears in some form on the debit side of one account and on the credit side of another account, *e.g.*, a sale of goods is charged to the purchaser and credited to " sales account."

Levy: (verb) To assess for purposes of taxation.

(noun) An assessment of taxes. The term is used more particularly with taxes raised to pay for some definite scheme of improvements, such as drainage, bridges or roads. The levy is often based upon the estimated increase in value of the lands assessed which will be directly attributable to the improvements in question.

Liabilities: Debts or legal obligations by a person, partnership, corporation, association or estate, payable out of assets.

The word is derived from the Latin verb ligo—to bind—and, in its legal sense, when used in the singular, conveys the idea of responsibility or amenability to law; a charge or duty which may be judicially enforced; a binding obligation in law or justice to do, pay or make good something.

Liabilities, Accrued: The proportion of liabilities, applicable to a period up to and including a given date, which increase commensurately with lapse of time but no part of which is due or payable until after the given date, *e.g.*, accrued interest on bonds or notes payable; accrued rents payable.

The term is also used to denote the estimated amount of liabilities accrued to a given date, the total amount of which will be based upon operations partly subsequent to the given date, *e.g.*, accrued income, profits or earnings, taxes.

In some public-utility accounting classifications, the term is used in a broader sense and includes liabilities which have been incurred prior to a given date but are not due or payable until a date subsequent thereto, *e.g.*, dividends declared.

It is recommended that the term be confined to accruing liabilities, the incidence of which overlaps the given date and a proportionate amount of which is accrued to that date.

Liabilities, Actual: Debts or other legal obligations not in dispute, arising out of transactions in the past, which must be liquidated in cash or renewed or refunded upon some future date.

The term should be confined to items payable, but not necessarily due; it does not properly include accruals (*i.e.*, accruing liabilities) or reserves or so-called accountabilities (*i.e.*, proprietorship accounts).

Liabilities, Assumed: Liabilities of others taken over and assumed for a valuable consideration. This term is used chiefly with reference to reorganizations, mergers or other transactions involving the acquisition of the net assets of other concerns.

Liabilities, Capital: (1) The paid-up value of par-value shares or original consideration received for no-par-value shares and for obligations, under seal or otherwise, which, according to their terms, do not mature until more than one year from date of issue (commonly known as "funded debt" or "long-term debt"); or,

(2) The permanent or long-term investments, by proprietors or others in an enterprise conducted for profit, which are theoretically available for the purchase of or represented by capital assets.

The period of one year is an arbitrary one adopted by accounting regulatory bodies as the dividing line between "funded debt" (or "long-term debt" or "fixed liabilities") and "floating debt" (or "current liabilities") and it is recommended that accountants consider the universal adoption of this plan for the sake of uniformity. Regulatory bodies also provide that "funded debt" shall not become "floating debt" until its maturity date and that "floating debt" shall remain in that classification even though repeatedly renewed for a period of a year or less.

Liabilities, Contingent: (1) Liabilities arising only in the event of something which may or may not happen. They may be classified in several ways:

(a) Definite liabilities, which may be found by an examination of the accounts and records, such as liability on notes re-discounted, arrears of dividends on cumulative preferred stock, unpaid subscriptions on stock, endorsements or guaranties which have been given, payments on leases, etc.

(b) A second class is more difficult to trace, for it includes such items as guaranties in the sale of goods or services, contracts for future deliveries, cancellation of sales on time, returned merchandise, pending law suits or judgments under appeal.

In any event, a balance-sheet should show on its face, or in a footnote, any contingent liabilities which may exist and can be traced.

(2) Liabilities which may arise in the future as a result of transactions in the past and, if arising, will result, in some cases, in a corresponding contingent asset but not necessarily of equal value, *e.g.*, notes receivable or acceptances discounted; accommodation and other endorsements; guaranties; warranties; suretyship; contractual liability to make good defects in work done or goods supplied; contractual liability for purchase and sale for future delivery (of paramount importance in a widely fluctuating market); additional tax assessments disputed and in process of review and reconsideration by tax authorities or being adjudicated in the courts; unsettled claims for personal injury or property damage; law suits and disputes of any nature, not included above, involving a possible actual liability if finally decided adversely. Unpaid calls on stock subscriptions should not be classified as "contingent liabilities" unless the call dates are uncertain and contingent upon the subsequent action of the issuing company. Additional assessments on stock holdings are of rare occurrence and are usually contingent upon the action of a reorganization committee or some similarly constituted body.

Reserves or provisions are sometimes created to cover contingent liabilities when there is a probability, based upon past experience or upon the attendant facts, that at least a portion of the amount involved will eventually have to be paid without recovery from others, but, even in these cases, if the matter is adjudicated in the courts, the reserve or provision is sometimes omitted on the theory that the entry may be judicially interpreted as a tacit admission of liability—doubtful accounting policy but possibly good legal strategy.

Liabilities, Current: Liabilities which are due and payable immediately or in the near future, theoretically out of current or quick assets, as distinct from capital or fixed liabilities. Synonyms: floating liabilities; floating debt; quick liabilities (rarely used).

Liabilities, Deferred: Liabilities the payment of which is deferred by agreement either written or implied, *e.g.*, liability for provident, fidelity or indemnity funds; liability for percentages due contractors upon completion of contracts; liability for deposits for construction of side-tracks to be refunded on basis of traffic handled; liability for deposits to cover the cost of employees' outfits; liability for deposits by customers and others.

The term is also used as descriptive of revenue or income received or billed in advance, *e.g.*, rents; club dues; subscriptions to periodicals; life memberships; service (of any kind); but in such cases it is recommended that " deferred income " be used as more descriptive of the items.

The term also refers to credit items in suspense awaiting adjustment or disposition, but it is recommended that " suspense credits " be substituted as a better term: this, however, should not include " unamortized premium on funded debt " which should retain its original designation.

Liabilities, Direct: Liabilities incurred directly, as distinct from " assumed liabilities."

Liabilities, Floating: The floating debt of a state or municipality is the amount of indebtedness which has not been made a permanent loan by funding.

The floating liability of a mercantile or industrial concern consists of the trade debts and money borrowed for temporary purposes as distinct from debts incurred by the issue of bonds, mortgages or debentures.

Liabilities, Gross: The use of this term is confined to bankruptcy proceedings in Great Britain. It means the total liabilities of a bankrupt without deduction for securities held by creditors or for liabilities which it is expected will be met by third parties.

Liabilities, Indirect: A term frequently used as synonymous with " assumed liabilities "; sometimes used, incorrectly, as synonymous with " contingent liabilities."

Liabilities, Matured: Obligations past due; the term is chiefly used with regard to bond and note issues.

Liabilities, Maturing: A loosely used term, usually denoting obligations (chiefly bond and note issues) which will fall due in the near future.

Liabilities, Other: A term occasionally used, in some cases by virtue of public-utility accounting classifications, to denote liabilities which are not otherwise specifically classified.

Liabilities to Outsiders: This expression appears more frequently in balance-sheets prepared in Great Britain than in those prepared in the United States. It corresponds closely to " trade creditors " and may be divided into three parts:

1. Creditors without security;
2. Creditors partly secured;
3. Creditors fully secured.

Liabilities, Reserve: A term frequently used incorrectly to describe reserves which are not applied in reduction of assets.

In the singular, the term is used in English law to designate any portion of the share capital of a limited company which, by special resolution, may not be retired except in the event and for the purposes of liquidation of the company. The object of this is to increase the financial stability of the company by having a large capital reserve.

Liabilities, Secured: Liabilities for which the creditors hold any security, either direct or contingent. They should be separated from the unsecured liabilities, and the extent to which the assets of the company are encumbered by hypothecation or otherwise should be indicated.

Liabilities, Stated: Liabilities as stated in a financial statement:

(a) When doubt of accuracy actually exists, as in the case of an unaudited statement prepared from books and records which appear, on their face, to be incomplete and may or may not give evidence of errors of omission or commission after an examination has been made.

(b) In a different sense, the amount of liabilities taken over by one concern from another in a merger or purchase of net assets and upon the stated amount of which the consideration, incident to the transaction, is partly predicated.

This is an unfortunate term, as it conveys a suggestion of doubt or misstatement which may not be warranted by the facts.

Liabilities, Trade: Liabilities arising in the ordinary course of trade or business, and due to others than proprietors, officers or employees, *e.g.*, accounts payable for merchandise purchased; payrolls payable. This is a narrower term than " current liabilities."

Liabilities, Unsecured: Liabilities for which creditors hold no security whatever.

Liabilities, Working: A term used in some industries (*e.g.*, telephone companies) to describe current liabilities and deferred income with the opposing caption " working assets " to describe current assets, but not including deferred charges. This term is unnecessary and conflicting.

In the preparation of balance-sheets all items offsetting assets are commonly designated or referred to as " liabilities " and are frequently stated in one total. Sometimes the caption reads " liabilities and capital," more rarely " liabilities, reserves and capital," or the same words in different order, and in balance-sheets of educational, eleemosynary and religious organizations the phrase " funds and liabilities " is often used.

There is, as is well known, a wide divergence of opinion among accountants as to the best method of stating the " liability side " of a balance-sheet, and the desirability of sub-totals is one of the questions in dispute. It is recommended, however, that a sub-total of the true liabilities should be stated separately from the remaining items, no matter in what order they may be placed, and that the word " liabilities " should be used, in accounting parlance, in its properly restricted sense.

Liability, Double: The personal liability attaching to shareholders in national banks and, in some states, in other corporations, for an additional amount equal to the original full-paid consideration for shares issued to them. It remains contingent until the bank or other corporation is unable to pay the depositors or other creditors in full.

Liability, Fixed: Synonymous with " capital liabilities," but the term is also applied to long-term debt of legal entities, the proprietorship of which is not represented by capital stock or wherein there is no proprietary accountability.

The term is also employed, incorrectly, to describe liabilities which have been definitely determined and, in this sense, it is practically synonymous with " actual liabilities."

Liability for Endorsement: A liability arising solely from the endorsement of an obligation given by another. It is classed with contingent liabilities until it is ascertained that the original debtor can not, or will not, meet the obligations. Then it becomes the direct obligation of the endorser.

Liability, Full: A liability not shared with others.

Liability, Joint: A liability shared jointly with others.

The term implies that each party is liable for the whole and all parties are treated in law as together constituting one legal entity and must be sued together. A release to one will operate in favor of all.

Liability, Joint and Several: A liability shared, jointly and severally, with others.

The term implies that the parties may at the choice of the creditor be sued jointly or separately, each party being responsible for the entire obligation if the other parties fail to meet it. A release to one party does not preclude bringing suit against the others.

Liability, Legal: Responsibility for some obligation.

Liability, Limited: (1) A liability which is limited or restricted by virtue of contract or legal statute, *e.g.*, the liability of a special partner is limited to the amount of his capital investment as distinct from that of a general partner whose liability is unlimited so far as partnership debts are concerned. The liability of corporation stockholders is limited, usually to the amount of original full-paid subscriptions, but in some states a double liability attaches to stockholders of business corporations and this is also true of stockholders of national banks.

(2) In Great Britain there are three kinds of companies which may be constituted and incorporated under the companies acts—

(a) Company limited by shares: This is a company having the liability of its members limited to the amount, if any, unpaid on the shares respectively held by them. Once the capital is fully paid up, there is no further liability resting on the shareholder. This class is subdivided into public and private companies.

(b) Company limited by guaranty: This is a company having the liability of its members limited to those amounts which the members may respectively undertake to contribute to the assets of the company in the event of its being wound up. There are only a few companies of this class in existence.

(c) Unlimited company: This is a company not having any limit on the liability of its members. Every shareholder is thus liable for the debts of the company as in an ordinary partnership. It possesses, however, two advantages: (a) the liability of each member ceases at the end of a year from the time he ceases to be a member; (b) the shares of the company are transferable. Such companies are now extremely rare.

Liability, Personal: Liability attaching to a person individually.

Liability, Primary; Liability, Secondary: Terms used in reference to the liability of parties to a negotiable instrument, indicating the order in which liability for its payment attaches.

The person primarily liable on a negotiable instrument is the person on whom rests the absolute requirement to pay it. All other parties are secondarily liable.

The maker of a note is primarily liable, while an endorser is secondarily liable. When a draft has been accepted the primary liability shifts to the acceptor and the drawer becomes secondarily liable. When, however, a draft has not been accepted, the primary liability remains with the drawer.

The maker (issuer) of a cheque is primarily liable, while an endorser is secondarily liable.

A guarantor is secondarily liable and so is a surety.

Liability, Several: A liability attaching to each party to a contract severally. If A, B, C and D are endorsers of a negotiable instrument, A makes separate promises to do certain things with B, C and D; B with C and D; and so on. Each makes a separate promise with every person whose name comes after his on the instrument, and the liability of each endorser is distinct from that of all parties to the instrument. All parties to a negotiable instrument may be sued upon their several liability at one time or at separate times.

Liability, Unlimited: A liability without limit, as distinct from a limited liability. The most common example of unlimited liability is that which attaches to the general partners of a partnership, who are liable not only for their own share of partnership debts but also for the shares of other partners in case of their insolvency. General partners are not, however, liable for the personal debts of other partners.

Liquidation: (1) The selling of any securities or property for cash.

(2) The termination, winding up, of any business, which also includes the liquidation of assets and may be either voluntary or involuntary.

Loading: Originally this term, when applied to accounting matters, meant that portion of insurance premiums which represents the amount estimated to be necessary to defray the expenses of operating, reserves for contingencies and a fair return to the stockholders of a company. This portion is added to the natural premium computed from mortality tables.

The term is now sometimes used to indicate arbitrary additions to factors included in preparing various indexes, such as those of commodity prices, stock prices, etc.

The word is also used in transportation matters, *e.g.*, car-loadings, indicating the number of car-load shipments made under stated conditions.

Loss, Gross: The excess of cost of goods sold over the selling price. It is the reverse of " gross profits " (*q.v.*) and is determined by the same methods. Note that " gross loss " is smaller than " net loss." The term is undesirable and not often used.

Loss, Net: The reverse of " net profits " (*q.v.*).

MARK-DOWN: (1) A term used in banking to indicate a revaluation of securities when the market has declined. It is, in effect, a re-inventorying of securities in accordance with the prevailing prices.

(2) In retail stores the term refers to a reduction of selling price for any reason.

Mark-up: The amount added to the cost price of an article to cover the cost of doing business and to provide a profit. In effect, it is the difference between the cost of an article and its selling price. The use of the term is usually confined to businesses such as department stores, chain stores and retail shops.

Marshaling of Assets: Strictly, the right of the court to arrange and apportion assets among the creditors involved so that equity will result.

In English law the term applies more specifically to the order in which an executor must apply the legal assets of the estate in the payment of the testator's debts.

The term is sometimes used to indicate the arrangement of assets in some particular order, and some writers have used the expression to indicate the order in which assets should appear on the balance-sheet.

Maturity: The date on which any obligation becomes payable. It may be indicated by a period, such as thirty days, *i.e.*, from the date of the instrument, or by a date such as January 15th. In the case of bills of exchange, the maturity is often determined at so many days from sight after presentation for acceptance.

In the case of bonds, there may be a definite maturity; there may be a maturity set at the option of the makers; there may be maturity at an indefinite date after a specified time; or there may be no maturity specified.

Maturity, Averaging: (See " averaging accounts.")

Merchandise: A general term indicating any movable object of trade or traffic; specifically the objects of commerce; commodities in general.

Merger: The consolidation of two or more companies or businesses in such a way that the assets and liabilities of the merging companies are no longer distinguishable; all capital stock is converted to that of either a new company or of one of the merging companies; and the charters of all other merged companies are canceled.

A merger can occur only when all stock of the non-surviving merging companies is surrendered in exchange for new stock.

NEGOTIABILITY: The power of being negotiable or transferable by assignment; the quality possessed by any document which is by law negotiable.

Net: The result of some deduction, *e.g.*, net earnings, net sales, (*q.v.*) as differentiated from gross (*q.v.*).

Net Avails: The proceeds of a discounted note, *i.e.*, the face of the note less the discount.

Note: (See also " bills "). In the expressions, " note payable " and " note receivable," it designates a promise to pay a stated amount.

In prevailing practice in domestic business the term " note " is now more acceptable than the term " bill " which was formerly used.

Notes Payable: A note payable has been defined as " an unconditional written promise signed by the maker, to pay a certain sum in money, at a fixed or definite future time, either to the bearer or to the order of a person designated therein."

The Federal Reserve Board has defined a note payable as an unconditional promise in writing, signed by the maker, to pay, in the United States, at a fixed or determinable future time, a certain sum in dollars to order or to bearer.

The term is generally used to include notes and bills of exchange, but as the former have to a large extent taken the place of the latter, the expression " notes payable " is usually preferable to the term " bills payable," which was formerly used and is still found in foreign statements.

Notes payable should be divided so as to show separately those which have been given for merchandise, those which represent loans made by the concern and those which are secured by collateral.

Notes Receivable: Negotiable instruments of a promissory nature which are payable to the holder, either directly or by an endorser.

While, in a legal sense, a note receivable may be merely a promise to pay and is not necessarily negotiable, the term "notes receivable," when used in a balance-sheet, means negotiable notes which the holder has received in the course of business.

The term may include notes received from officers and employees, or from other sources, but such notes should always be shown separately on the balance-sheet.

Notes Receivable, Discounted: Notes receivable which have been assigned or passed by endorsement to a third party for their face value or some portion of it, less a discount for their unexpired term, on which the original holder has a contingent liability, by endorsement or otherwise. Either they should be shown separately on the balance-sheet, with an offsetting liability for the amount received on their account, or they should be omitted from both assets and direct liabilities and mentioned in a notation under contingent liabilities.

Notes Receivable from Officers, Stockholders and Employees: Notes taken by a concern, usually for advances or in payment for capital stock. They should always be separated from notes receivable from customers and the propriety of including them in the "quick assets" depends upon the circumstances of each case.

Notes Receivable, Trade, Customers': Notes which have been received from customers in payment for goods supplied or for services rendered.

They constitute one of the items included under "quick assets" and, when stated in a balance-sheet, the amount of those overdue should be separated from those which are not due.

OBLIGATION: A general term used for all classes of indebtedness. The fundamental idea is that the debtor is obligated to pay and that the creditor has legal power to compel payment.

Obsolescence: The basic idea conveyed by this word is that of becoming out-of-date or falling into disuse.

It is usually applied to plant and equipment which, although in good physical condition, has become old-fashioned through the progress of invention or advance in the arts, so that results are achieved more efficiently and/or at less cost under new methods. Obsolescence may be caused by the cessation of demand for the particular articles for the production of which a plant or unit was constructed or installed. This element of loss would be eliminated if the plant or unit could be readily converted to other use.

Regulatory bodies and taxing authorities provide that obsolescence is to be considered in conjunction with wear and tear and inadequacy, in computing depreciation rates, but in fact obsolescence, except in certain industries, rarely accrues and a plant unit is usually up-to-date until it actually becomes obsolete. Any provision for obsolescence is, therefore, in most cases, a mere segregation of surplus. Coming events occasionally, but not often, cast shadows before.

Offset: (1) An amount which cancels or counterbalances another amount on the opposite of an account.

(2) An amount which cancels or reduces a claim of any kind.

On Account: A part payment on account of any obligation.

On Consignment: Goods which are consigned to another for the purpose of sale. (See " consignments.")

Oncost: A term, used chiefly in Great Britain, synonymous with " burden " or " overhead "; the indirect expenses included in the cost of manufacturing.

Out-go: That which goes out—specifically, expenditures as opposed to income.

Outlay: Synonymous with " expenditure."

Overdraft: The amount by which a cheque, draft or other demand for payment exceeds the amount of the credit against which it is drawn.

In Great Britain the term is used in banking, where a customer, on depositing collateral, is allowed to overdraw his account to a stated amount, the overdraft being subject to interest and taking the place of notes payable which a customer would give to a bank in the United States.

Overhead: In general, the expenses of direction and administration necessary to conduct a business of any kind. It includes such items as rent, telephones, secretarial services, etc.

In cost accounting, it is synonymous with " burden " (*q.v.*).

PAPER: A broad expression used to indicate any short-time evidences of indebtedness, such as negotiable instruments which may be used to raise funds for current purposes.

Par: (1) The word indicates equality and securities are said to be at par when their nominal and market values, respectively, are identical.

(2) The face value of stock.

Par, Above: Synonymous with " at a premium."

Par, Below: Synonymous with " at a discount."

Payment: The discharge of a pecuniary obligation by money or what is accepted as the equivalent of a specific sum of money. The satisfaction, by or in the name of the debtor, to the creditor of what is due, putting an end to the obligation.

Plan of Accounts: The detailed description of a set of accounts suitable for some specified business or class of business, frequently accompanied by charts illustrating the movement of documents and records of transactions through the various departments.

Plant: A very broad term which may include land, buildings, machinery, equipment, furniture, etc. While it is sometimes convenient to refer to such items as a whole, in a balance-sheet or other statement each principal item should be shown separately—especially, land, buildings, machinery and movable equipment.

Plant, Fixed: That part of a plant which is permanently attached to the real estate.

Postings: Entries transferred, either in detail or in total, from one book to another.

Premium: (1) The amount by which the price of a security exceeds its face value.

(2) The amount paid periodically to the insurer by one who is insured.

(3) The price paid for an option or contract.

(4) A reward for some act.

Present Worth: Synonymous with " present value." (See " worth, present.")

Price: The sum for which an article is or can be bought or sold. It is not synonymous with "cost" or with "value," although in certain cases the amounts may be identical. (See also "cost " and "cost price.")

Proceeds: The sum resulting from some transaction, *e.g.*, the amount received on discounting a note, on selling any property or collected on a negotiable instrument after deducting collection charges.

Proceeds, Net: A useless and incorrect expression. " Proceeds " implies a net result and requires no qualification.

Profit-and-loss; Profit-and-loss Statement: A statement, prepared from the books and records of a going enterprise conducted for profit, which assembles all the income and expenses or profits and losses applicable to a stated period, the balance of the items indicating the net profit or loss as the case may be.

It may reflect operations recorded by either double-entry or single-entry. In the former case it is the concomitant of a balance-sheet, and in the latter case the accompanying statement is technically known as a " statement of assets and liabilities."

It may reflect the operations of a person, partnership, corporation or association, and the term is usually confined to a statement prepared from the accounts of a business wherein the investment or employment of capital is essential to its proper conduct, the return upon capital, as shown by the profit-and-loss statement, being, in most cases, the true measure of success or failure. Accounting regulatory bodies have, however, prescribed the term " income statement " for the operations of public utilities, though the statement is frequently referred to as " earnings statement " or " operating statement." In Great Britain, the term " revenue account " is used for similar purposes.

There is not enough information at hand to warrant definite conclusions in respect to the titles of statements showing income and expenses of corporations or other legal entities under the insurance and banking laws of the several states or of similar enterprises controlled by federal statutes and regulations. Suffice it to say that " income " is the title prescribed for insurance companies in the state of New York and that the titles in the banking business vary considerably.

A profit-and-loss statement may be divided into sections. This is a common practice in the accounts of trading or manufacturing concerns, the statement, in these cases, being known sometimes as " trading and profit-and-loss statement " or "manufacturing and profit-and-loss statement." Sometimes the title " profit-and-loss and income statement " or " loss-and-gain statement " is used, or there may be some other combination of the foregoing descriptive words. An extreme example of dividing into sections in a profit-and-loss statement of a manufacturing corporation follows:

Section No. 1—Manufacturing. Debited with inventory of raw material and work in process at beginning, raw material purchased less discounts, inward transportation charges, productive labor and manufacturing overhead including depreciation.

Credited with inventory of raw material and work in process at end and sale of by-product, ashes, steam, etc.

Balance designated as " cost of production " or " cost of manufacturing " carried down to section No. 2.

Section No. 2—Finished product. Debited with inventory of finished product at beginning and warehouse or storeroom expense (on account of storage of finished product).

Credited with inventory of finished product at end.

Balance designated as " cost of goods sold " carried down to section No. 3.

Section No. 3—Trading. Debited with salesmen's salaries, commissions and expenses, outward transportation charges, advertising, boxes and cases and miscellaneous selling expenses.

Credited with sales, less discounts, returns and allowances.

Balance designated as " gross profit " carried down to section No. 4.

Section No. 4—General. Debited with general and administrative expenses and sundry losses (*e.g.*, bad debts; fire loss; shut-down expense).

Credited with miscellaneous operating income (*e.g.*, rents from operating property) and sundry profits (*e.g.*, profit on sale of land not held as investment).

Balance designated as " net operating profit " carried down to section No. 5.

Section No. 5—Financial. Debited with interest paid (or accrued), amortization of debt discount and expense and loss on sale of investments.

Credited with miscellaneous interest received (or accrued), income from investments (interest and dividends) and profit on sale of investments.

Balance designated as " net profit before charging federal income tax " carried down to section No. 6.

Section No. 6—Federal income tax. Debited with federal income tax (estimated or actual if known).

Balance designated as "net profit " carried down to section No. 7.

Section No. 7—Distribution or appropriation. Debited with dividends paid or declared and surplus reserves (*e.g.*, reserve for contingencies).

Balance designated as "unappropriated surplus" carried to surplus.

The foregoing division, as previously stated, is merely an example carried to extremes. There is no hard and fast rule for stating such accounts. Sometimes the arrangement depends upon the peculiar circumstances of a case in which it may be desirable to stress a particular factor or phase of a business, *e.g.*, the accounts may be stated to show results before and after providing for depreciation or depletion (in a concern operating a wasting asset), and in the accounts of carriers by water the profit or loss of each voyage may be separately shown.

In many cases, where proper stores or stock accounts are kept, "material used" is shown in the manufacturing section instead of the inventories and purchases of raw material, and the difference between the physical and book inventory at inventory dates is shown, if relatively small, as a separate item or merged with the total of "material used." If, however, the difference is relatively large and the period of accumulation is not wholly within the period for which the accounts are being stated, it is usually excluded from the manufacturing section, frequently being written off to surplus direct. If manufacturing material is used for purposes other than manufacturing (*e.g.*, for construction or repair work), the "material used" method should be adopted.

The profit-and-loss statement of a trading or manufacturing concern often is divided into two sections only (in trading accounts the manufacturing element is of course absent), the balances showing respectively gross profit and net profit. Sometimes the statement is not divided into sections at all, particularly when operations are on a very small scale, and dividends paid or declared may be shown in a separate statement of surplus, unless the authorizing resolution specifically directs that they be paid out of or charged to current profits.

Some accountants differentiate in a profit-and-loss statement between "cost of goods sold" and "cost of producing goods sold," the former including purchases plus or minus inventory differences and the latter including the former plus wages and overhead. Occasionally inventories of finished product are included in the manufacturing section and the balance is designated as " cost of goods sold " instead of " cost of production " or " cost of manufacturing," but this is an unscientific method of stating the accounts. " Cost of sales " is a term commonly used synonymously with " cost of goods sold."

" Cost of assembling " is a term sometimes used in a profit-and-loss statement to describe the cost of producing a finished article from manufactured parts. " Cost of production " is prescribed by regulatory bodies, or used by personal preference, in reference to the accounts of concerns operating a wasting asset or producing a commodity from natural resources. If concerns operating a wasting asset fabricate the product, the cost, including the cost of production (sometimes designated as " cost of product used ") usually bears the caption " cost of manufacturing."

It is important to note that the word " cost " as used in these captions is a misnomer when inventories have been priced at market or at any price other than cost (actual or estimated). This misuse of the word may, however, be offset by stating inventories at cost and the net increase (writing up inventory values is not considered good accounting practice except in rare cases) or decrease in value in a subsequent section of the profit-and-loss statement. This method is seldom employed, but it produces a clear statement of facts.

In some undertakings manufacturing large units under contract requiring a long period of time for their completion (*e.g.*, shipbuilding), it is permissible under certain conditions to include a proportionate amount of profit in the inventory value of work in process. In these cases the word "cost" loses its significance entirely.

The profit or loss on sale of investments or of operating property is frequently shown in a statement of surplus (even when not required by regulatory bodies) on the theory that a statement of current operations, by whatever name called, should reflect the result of normal activities and that the result of collateral undertakings or profits or losses of an extraordinary nature (unless negligible in amount) should be excluded.

Selling expenses may be shown in the general section of a profit-and-loss statement rather than in the trading section, and some accountants differentiate between " gross trading profit " and " net trading profit," the latter being determined after charging selling expenses to it. It is still a debatable point whether cash discounts taken and given should be deducted from purchases and sales respectively, or whether they should be treated as financial transactions and excluded from the manufacturing or trading section.

The two sides of a profit-and-loss statement may be designated as " Debit " or " Dr." and " Credit " or " Cr." respectively and/or a differentiation may be made by prefixing the prepositions " To " and " By " to each debit and credit item respectively, or these designations may be omitted entirely.

Sometimes the statement is prepared without debit and credit sides. The same results are obtained by addition and deduction and the use of inner columns for detail. In such cases, the chief source of income (*e.g.*, sales) is shown first. Apart from this, the rules of practice governing sections apply, generally speaking, equally to sequence and indention. The " income statement " of public utilities is always prepared, by prescribed regulation, on the addition-and-deduction plan and the designations of the interim balances vary considerably.

In short, there are many variations of the profit-and-loss statement and many debatable points, but the important thing is that the statement be prepared with due regard to the nature of the business, in such detail as appears to be required [" condensed " may be prefixed to the title when little detail is shown] and on the same basis, as far as possible, for successive periods. By following the latter rule, comparative figures which are in fact comparable will be readily available to those entitled to the information, and a " comparative profit-and-loss statement " is often prepared with that end in view.

A profit-and-loss statement is frequently prepared to show transactions of a holding company and its subsidiaries (inter-company transactions being eliminated) with the public. In these cases the word " consolidated " is usually prefixed to the title. Less frequently, the word " general " or " combined," is employed and sometimes " general " is added to one of the other words for good measure, but for no other apparent purpose. The word " general " should be omitted from the title in all cases, as it does not convey a definite meaning.

In many public-utility accounting classifications the prescribed " profit-and-loss account " is a statement of surplus for the period and includes, in addition to the balance at beginning and end and the amount transferred from the " income statement," the following items: overlapping items designated as delayed income debits and credits; unrefundable overcharges; profit and loss on real property and equipment sold; debt and stock discount extinguished through surplus; appropriations of surplus for various purposes, including the payment of dividends; and other items not applicable to current operations under the accounting rules in force.

A statement of operations of an undertaking not conducted for profit is usually called an " income and expenditure (or expense) statement " or merely " income statement," and sometimes the term " operating statement " is used in reference to the accounts of clubs and similar institutions, but, whatever the exact title, the words " profit," " gain " and " loss " should always be omitted.

The term " income statement " or " income and expenditure (or expense) statement " is also used in reference to the accounts of professional and other activities conducted as a means of livelihood, in which gross income is derived almost wholly from the efforts of a person or persons whose accounts are being stated and the capital employed is a negligible factor.

The line of demarcation between a " profit-and-loss statement " and an " income statement " (as described in the foregoing paragraph) is not, however, clear cut and practice is not uniform.

The income and expenses of a solvent concern whose affairs are being wound up may be shown in opposite sections of a realization and liquidation statement, the sections being sometimes designated as " supplementary debits " (or charges) and " supplementary credits " respectively, accompanied by a trustee's cash statement and a balance-sheet or statement of assets and liabilities.

The income and expenses of an insolvent concern in liquidation may be shown in opposite sections of a deficiency account (or the net result in one or other section) accompanied by a statement of affairs. These are the statements prescribed by the laws of Great Britain.

The bankruptcy law of the United States does not provide for a statement of affairs and deficiency account (the law specifically excludes municipal, railroad, insurance and banking corporations from the benefits of its provisions), but such statements are frequently prepared from the accounts of insolvent concerns whether declared bankrupt or not in addition to or in lieu of the forms prescribed by the bankruptcy law.

The operations of insolvent concerns whose affairs are in the hands of trustees or receivers may be continued on a normal or restricted scale by permission of creditors or by direction of the court. In either of these events, the titles of the various financial statements, including the statement of current operations (profit-and-loss; income, etc.), do not differ from those prepared from the accounts of solvent going concerns, except that the word "trustee's" or "receiver's" may be and preferably is, prefixed to each title, though public-utility account classifications do not provide for such contingencies.

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.

Profit; Profits: The word "profit" is frequently used alone to indicate the excess of proceeds over cost in an incidental transaction or of revenue over expense in the case of a subsidiary department and is introduced as a net figure into the profit-and-loss account—for example, profit on sale of real estate (or investments), profit from commissary department. When so used it may be regarded as having its ordinary, non-technical meaning.

The word "profits" in accounting is used in a technical sense and may be regarded as a generic term, employed almost invariably in conjunction with some qualifying word or phrase. The most familiar forms in which it is used are

Gross profits
Net profits
Gross profits on sales
Net profits on sales
Trading profits
Net operating profits
Undivided profits
Undistributed profits

Care should be exercised to describe the kind of profit to which one desires to refer.

When used alone, the word "profits," generally speaking, means the gain resulting from the employment of capital in any undertaking; the excess of the selling price over the cost of anything; pecuniary gain in any transaction or occupation; the surplus remaining from the employment of capital after defraying expenses and providing for loss of capital employed.

In economics the term " profit " is used to designate the net return left in the hands of a producer after deducting wages, including normal wages of management, rent, the value of materials consumed and fixed capital expired, normal interest on capital, whether borrowed or owned by the producer, and a sum sufficient to insure against risks. Any surplus remaining, due to unforeseen price fluctations, etc., to fruitful inventions or to exceptionally successful management, is profit.

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 selling profits. (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, 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, 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 operation 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, an increase in the money equivalent of the existing shares without an increase in their number, or a combination of these changes.

Profits, Casual: This term is used in British practice to indicate those profits which do not arise from the habitual transactions of the concern.

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 include any profit on work done for, or goods transferred to, other departments 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 inter-company profits; that is to say, " inter-departmental 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; profits not gained in the ordinary conduct of business.

Profits, Gross: (1) 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.

(2) In manufacturing and trading businesses, the difference between (a) the net proceeds of goods sold (before deduction of cash discounts and bad debts) and (b) the net production cost or the net purchase cost of goods (also before deduction of cash discounts).

Inasmuch as in the ordinary form of manufacturing or trading account the cost of sales is found by adding inventory at beginning to and deducting inventory at end of period from total cost of production or total purchases for the period, the cost-of-sales figure includes inventory losses (loss by theft, disappearance, breakage, deterioration, reduction in market value, etc.), and the gross profits are accordingly determined after provision for these items. Extraordinary inventory losses, however, should not be included in cost of sales but should be shown as a special profit-and-loss deduction in a final group.

Where cost of sales is computed on the basis of goods actually sold, and inventory losses are separately measured or are ascertained by comparing physical and book inventories, the gross profits before provision for inventory losses are sometimes called prime gross profits.

In a business dealing in real estate, gross profits are the excess of the net proceeds of sales over the net cost of property sold, including in the latter figure the proportions of cost of improvements and development applicable to such sales.

In stating gross profits of manufacturing businesses in summarized form for publication, it is often considered desirable to show depreciation of plant as a separate item of deduction from profits. In such cases gross profits shown should be stated as " Gross profits before provision for depreciation."

Extraordinary inventory losses, however, should not be included in cost of sales, but should be shown as a special profit-and-loss deduction in a final group.

Profits, Inflated: Profit that is overstated.

Profits, Intercompany: In the preparation of consolidated accounts of two or more companies which have transactions between themselves it may be found that one of the companies has made a profit on sales of assets to another of the consolidated companies. If the assets are still owned within the circle of consolidated 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 the consolidation the " intercompany " profit is immaterial and even if taken into account will disappear in consolidation.

Profits, Net: The term " net profits," without qualifying expression, should be used only to describe the profits remaining after including all earnings and other income or profit and after deducting all expenses and charges of every character, including interest, depreciation and taxes. Net profits should represent the amount available for dividends and surplus. The term is not synonymous with net earnings (*q.v.*).

Profits after deduction of all expenses of every kind, but before deduction for dividends, appropriations for purposes other than the payment of expenses and before capitalization of any part of the profit.

Profits, Net, on Sales: The balance remaining after deducting from gross profits on sales all inventory losses, selling expenses, commissions, advertising, bad debts and all other expenses chargeable against sales.

Profits, Net Operating: Substantially the same as trading profits. The term " net operating profits," however, is applicable to industries such as laundries, warehouses, garages and similar quasi-service businesses, in which the gross profits are from sources other than sales in the ordinary sense.

Profits on Sales, Gross: The excess of the net proceeds of goods sold over their net production cost or net purchase cost. (See " gross profits.") Where the term " gross profits on sales " is used, it should convey the same meaning as " prime gross profits," *i.e.*, gross profits before provision for inventory losses.

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

The term is sometimes used to indicate estimated profits, based on supposititious earnings and expenses, but this use should be discouraged and the term "estimated profits" should be substituted.

Profits Prior to Consolidation; Profits Prior to Incorporation: Inasmuch as a corporation can not earn profits before it comes into being, any profits made by incorporators prior to that time are not profits of the corporation available for dividends.

They should be kept by themselves, as capital profits, but they may be used to reduce the cost of goodwill or other assets originally acquired by the company.

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 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 in the same year may 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 a person. " Taxable profit," therefore, is the profit that is taxable under the particular tax law that may be applicable.

Profits, Trading: The balance remaining after adding to net profits on sales the amounts of any incidental profit from trading operations (*e.g.*, commissary, stores, etc.). (See " profit-and-loss.")

Profits, Undistributed: A term sometimes used erroneously as synonymous with undivided profits.

In the accounting sense the expression has no meaning other than the obvious one. For example, the profit shown by a statement of account of a joint venture, before division among the parties interested, might properly be described as " undistributed profits."

Profits, Undivided: Where this expression is used in corporation accounts, it means the accumulated net profits of the business. In such cases the balance of net profits for any individual accounting period is generally described as " balance carried to undivided profits," or " balance carried to surplus and undivided profits."

It is then customary in the balance-sheet to include undivided profits with surplus, under the heading of " surplus and undivided profits." In cases in which the amount of undivided profits is shown in a separate item it is evidence of an attempt to distinguish profits arising out of regular business operation from extraneous corporate profits legally divisible as surplus, and to allocate dividends paid against the former rather than the latter. In view of the legal questions involved the practice is not generally recommended.

In partnership accounting the expression " undivided profits " is used to designate divisible profits not yet paid or credited to the individual partners.

Some banks and other financial institutions carry accumulated earnings (less dividends paid, and losses, etc., charged off) in an undivided-profits account until it is desired formally to transfer all or part to surplus account.

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

Pro Forma: Any document made out "for form's sake" is a pro-forma statement.

Pro Rata: A term meaning "in proportion." It relates to the distribution of any fund, dividend, etc., implying that the distribution is made upon some proportional basis.

Provision: This word is used as a substitute for "reserve" but should be used only:

(a) For liabilities known to exist, the exact amount of which will not be known until a later date, *e.g.*, income taxes, overlapping accounts payable (bills or invoices not received or not audited and not entered on books), dividends declared, the amount of which is not known because of outstanding convertible securities.

(b) For disputed liabilities arising out of past operations or activities, *e.g.*, judgments payable on appeal, additional income taxes levied but disputed and under review by the taxing authorities or being adjudicated in the courts. For obligations contingent upon the future action or non-action of other parties there should be reserves and not provisions, *e.g.*, reserve for notes discounted.

In its legal sense the word (usually in the plural) means a distinct stipulation, the part of an agreement, arrangement or rule referring to one specific thing, *e.g.*, the provisions of a bill.

Provision for Bad Debts: (See "reserve for bad debts.")

Provision for Freights, Allowances, Discounts, etc.: Deductions made from the total gross amount of accounts receivable to provide for freights, etc., which will be deducted by customers when invoices are paid.

Purchases: (1) Things which are bought. The term is used chiefly in the trading account where it indicates the amount of merchandise which has been bought.

(2) The word " purchase " is also used with the value or worth of certain assets, *e.g.*, a lease may be bought at ten years' purchase, meaning that the price is ten times the annual rent.

Purchases, Net: The gross amount of purchases less returns and trade discounts.

RATE, EFFECTIVE INTEREST: The ratio of the amount earned to the actual amount of money invested, as distinguished from the nominal rate, which is calculated on the par value of the bond or other investment. Effective interest also takes into account the final liquidation of a bond acquired at one price and to be liquidated at another.

Ratio: The relation or proportion which one amount or quantity bears to another, usually expressed in percentage. Some of the ratios most commonly used are those of current assets to current liabilities, of current assets to total liabilities, of debt to net worth, of fixed assets to net worth, of merchandise to sales, of net profits to net worth, of sales to receivables, etc. In each instance the result is expressed in percentage.

Realty; Real Estate: The term real estate or realty includes both land and the buildings or improvements standing on it. It may also include standing timber and orchard trees.

In all cases, the land should be shown apart from anything which may be on it. Its value does not fluctuate as does that of buildings or orchards and is not subject to depreciation or appreciation in the meaning of those terms when applied to improvements.

Rebate: (1) In general, an allowance, a deduction.

(2) In banking practice, the amount refunded when interest has been paid in advance on a loan which is paid before maturity.

Receipts: What is actually received. It indicates cash (from all sources) unless otherwise described.

Records: In accountancy this term includes, not only the books of account, but subsidiary records and documentary evidence affecting the business. The term is elastic and the items which may be included vary greatly according to the nature of the business and circumstances surrounding the examination.

Register: Any book or record used to record particulars of any series of transactions, events or documents, *e.g.*, registered bonds or stock are entered in their respective registers; vouchers are usually entered in a voucher register; the book containing the list of stockholders or members is often called a register.

Officially the word applies to records such as the register for births, for marriages, for deaths, for the recording of deeds, mortgages and other legal documents.

Rent: In accountancy, this term originally related to the income derived from real estate leased or rented by the owner to another party. It was a money payment in return for the use of lands or tenements. In recent years the term has been given a broader meaning and applies also to money or its equivalent paid for the use of any article, such as machines, office equipment and many other classes of personal property.

In economics, the term has a wider and different meaning.

Reorganization: In general, this term is usually applied to a readjustment of a corporation which is in financial difficulties, but the meaning does not necessarily imply any financial embarrassment.

It has been defined in the revenue acts as follows: (Reg. 74, Art. 577)

"(1) A merger or consolidation (including the acquisition by one corporation of at least a majority of the voting stock and at least a majority of the total number of shares of all other classes of stock of another corporation, or substantially all the properties of another corporation).

"(2) A transfer by a corporation of all or a part of its assets to another corporation if immediately after the transfer the transferor or its stockholders or both are in control of the corporation to which the assets are transferred.

"(3) A recapitalization, or

"(4) A mere change in identity, form, or place of organization, however effected."

Repairs: The amount chargeable to repairs is that sum which it is necessary to expend in order to maintain property of any kind as nearly as possible in its original condition.

A repair differs from a betterment inasmuch as the former does not increase, but is intended merely to maintain, the efficiency of the property repaired.

There are various methods of treating the cost of repairs. Sometimes the cost is charged to profit-and-loss; sometimes it is charged to a reserve account, or an equalization account, set up for the purpose of distributing such charges evenly throughout a given period.

The equalization account may include renewals and replacements but does not include betterments (*q.v.*).

Replacements: These form a part of repairs. They are represented by expenditures for articles or labor which do not increase the original value of that which is replaced and thus they differ from betterments.

Requisition: A demand or request, usually from one department of a concern to another, for specified articles or services, generally made on a prescribed form with several carbon copies for use in the departments which may be concerned.

Reserve: The correct use of this word, as applied to an account, will be facilitated by reference to its derivation—re: back, and servare: to keep, *i.e.*, a keeping back or withholding.

A reserve account indicates segregation and withholding, for a specific purpose, of past or current profits, revenue or income from any source. It is invariably a credit account and may be provided to cover:

1. An estimated loss in value of physical property which has occurred theoretically in the past or arises from past operations or activities; *e.g.*, reserve for wear and tear.
2. An estimated or actual loss in value of choses in action, *e.g.*, reserve for bad and doubtful debts, reserve for depreciation or fluctuation of securities (to cover repudiation, bankruptcy, insolvency or merely a temporary fluctuation).
3. A discounting or proration of future estimated or actual loss of exclusive use or possession of intangible capital such as patents, copyrights, franchises, leaseholds, rights of way, water rights or special terminable privileges or rights of any kind which have been capitalized. A reserve for amortization should be used in this case where lapse of time is the governing factor.
4. An estimated loss in value of physical property which may (problematical as to occurrence) or will (problematical as to extent) occur in the future, *e.g.*, a self-insurance reserve to cover loss by accident, casualty or action of the elements.
5. An estimated future expenditure for compensation to employees or others, *e.g.*, reserve for workmen's compensation or reserve for accident liability.

6. An estimated future expenditure or loss on account of guaranties or endorsements, contingent upon the future action or non-action of other parties to the transactions, *e.g.*, a reserve for notes discounted or a reserve for accommodation endorsements; or an estimated future expenditure or loss contingent upon breach of warranty or upon non-fulfilment of contractual conditions, *e.g.*, reserve for tire mileage.
7. An estimated future expenditure for capital outlay, the reserve being created to conserve the available cash balance by reducing the amount of unappropriated surplus, *e.g.*, reserve for capital additions. This is an improper use of the word " reserve." " Appropriated surplus " is better.
8. An actual or estimated loss in value of tangible property of any kind which has occurred in the past, probably not wholly recoverable by insurance and in process of amicable adjustment with, or disputed by, insurers; *e.g.*, reserve for fire loss.

A loss of possession of tangible property of any kind due to burglary, larceny, embezzlement or defalcation, not covered by insurance, should, upon discovery, be written off to an appropriate nominal account. A reserve should not be created for such a loss. The property value should be reinstated in the assets and the nominal account should be credited, if and when recovery ensues. If, however, the exact amount of the loss may not be determined for some time, an appropriate reserve account may be set up in the books as a temporary expedient, subject to clearance and adjustment when the facts are known.

A reserve to cover losses occurring either in the past or future, if it is provided with knowledge that loss has occurred or will occur and that such loss is a direct consequence of past operations, is an abatement of the corresponding assets, not a segregation of surplus.

Reserves which are set up to cover losses or contingencies that are expected to arise in future operations are segregations of surplus. Reserves set up to pay for additional assets are in the same category.

Some eminent accountants have used the word reserve to describe a " reserve fund," but this practice, which is an excellent example of the confusion existing in accounting terminology, is falling into disuse. (See " fund.")

Reserve is also used to denote something stored up for future use or in excess of current needs, *e.g.*, a reserve stock of materials, or to denote something set apart for a particular purpose, *e.g.*, a reserve of land, but in neither case is it customary to carry that designation into the books of account.

The word " reserve " is used to denote the minimum ratio of cash and choses in action to the amount due depositors which banks are required by law to maintain at all times.

NOTE: A reserve for loss on containers or on other property delivered to vendees and to be returned by them has fallen into disuse in most industries as such a loss is now usually obviated by a tentative charge or actual deposit.

Briefly, in accounting a reserve is (1) an amount reserved out of what otherwise would be the net worth (generally by charges currently made to operating accounts and in other cases by specific provision made at the close of an accounting period), intended to provide for liabilities believed to exist but not otherwise taken into account and for any difference between book and actual value of assets—such reserves are part of the liabilities or are applied as offsets to the value of assets; or (2) an amount reserved out of surplus for some specific purpose, such as expansion of business, retirement of preferred stock, etc. Reserves of the latter class are no more than parts of the surplus separated for some special use and are not liabilities.

Reserve, Allowance: An amount reserved before determining net worth, to provide for allowances to debtors that will probably have to be made at the time of payment.

Reserve, Bank: An amount of actual cash or deposit with the reserve fund agent, bearing some definite relation to the amount of a bank's liabilities payable on demand, that should be held by the bank to meet sudden demands. These reserves are not shown as such on the balance-sheet of a bank and indeed are not reserves in the ordinary sense.

Reserve, Benefit-fund: An amount reserved before determining net worth to provide for future payments under some form of employees' benefit arrangement. As the reserve is for a benefit fund it should be represented by actual funds set aside.

Reserve, Contingent: An account with a credit balance set up by a charge to profit-and-loss or to surplus, representing a provision out of profits for an uncertain future loss or expense.

Reserve, Contractual: A special term, having no generally applicable accounting meaning.

Reserve, Dividend-equalization: A part of the surplus set aside for the purpose of paying dividends at some future time even though at that time the business may not have sufficient current profits to pay the dividends. For example, some of the largest Japanese shipping companies made unusually large profits during the war, paid regular dividends, set aside part of the unusual profits to buy more ships, and provided a dividend-equalization reserve to insure the payment of regular dividends for years to come.

Reserve, Extinguishment: This has no technical meaning. The title should show what is to be extinguished—upon that might depend the kind of reserve required.

Reserve for Accidents: (See "reserve, industrial-accident-fund.")

Reserve for Allowances: (See "reserve, allowance.")

Reserve for Amortization: This is the equivalent of reserve for depreciation, except that it must provide for the extinction of the asset account by some specified time, irrespective of the physical condition of the asset.

Reserve for Bad Debts: The term "provision for bad debts" (*q.v.*) is preferable.

Reserve for Contingencies: An amount set up out of apparent net worth to provide for liabilities that may or may not have to be met, or to provide against any unforeseen loss or requirement. It is sometimes doubtful whether reserves set up for contingencies should be treated as liabilities or as part of the surplus. If there are no definite reasons for expecting losses the reserve would seem to be part of the surplus.

Reserve for Depletion: An amount set up before determining net worth to offset the depletion of some asset, such as a mineral deposit, that is carried in the accounts at the value placed upon it before the depletion occurred.

Reserve for Depreciation: An amount reserved before determining net worth, to offset depreciation of fixed assets that are carried at values which were assigned to them before they had suffered the depreciation for which the reserve is provided. Three designations are in use: (a) provision for depreciation, (b) allowance for depreciation, (c) reserve for depreciation. The expression "reserve for depreciation" is so generally used and understood by bankers, the business world and accountants that its use should be continued.

Reserve for Discounts: An amount reserved before determining net worth to provide for discounts allowable to debtors when their accounts are settled.

Reserve for Extraordinary Casualties: (See " reserve for accidents.")

Reserve for Overhead: A reserve set up before determining net worth to cover overhead expenses. The object is to spread equitably over operations charges that do not mature regularly.

Reserve for Renewals and Replacements: A reserve set up before determining net worth to cover renewals and replacements of fixed assets. The object is to spread equitably over operations renewals occurring irregularly.

Reserve for Repairs: (See " reserve, repairs equalization.")

Reserve for Taxes: (See " reserve, income tax.") Such a reserve may be provided for local and other taxes, the object being to spread equitably over operations all taxes assessed.

Reserve for Uncollectible Accounts: (See " reserve for bad debts.")

Reserve for Wear, Tear, Obsolescence and Inadequacy: An amount reserved before determining net worth, similar to the reserve for depreciation, but specifically including a provision for losses which may be expected as the result of changing general conditions and progress in the arts, as well as those arising from physical deterioration.

Reserve, Funded: A reserve represented by actual funds set aside, usually in marketable securities, in part or wholly.

Reserve, Hidden: This is not a reserve in the usual sense; it does not appear in the accounts. The phrase is used with reference to accounts in which some assets are stated below their true value or omitted or some liabilities are stated at an amount in excess of the true liability. These understatements of net worth are referred to as " hidden reserves." If the items were correctly stated the balance-sheet would have to contain a reserve to bring the surplus to the figure at which it stands.

Reserve, Income-tax: In accounts at dates other than the end of a fiscal year, when the amount of income tax payable is not exactly ascertainable, and even in accounts at the end of the year if doubts exist as to the exact amount of tax, the liability is provided for by setting up as a reserve an amount estimated to be the probable amount payable. Such reserves may be set up also when there is a possibility of government claims for increased taxes for past years. Ascertainable amounts of tax are to be set up directly as current liabilities, not reserves.

Reserve, Industrial-accident-fund: A reserve set up before determining net worth, represented by actual funds set aside to meet possible future payments on account of industrial accidents.

Reserve, Insurance: (See " fund, insurance.")

Reserve, Insurance-fund: (See " fund, insurance.")

Reserve, Legal: Insurance companies are compelled to take up as a reserve a certain proportion of the premiums received on policies not yet expired. This is a " legal reserve."

Other reserves are required by law; they, too, are legal reserves. The term has not a definite accounting significance but its meaning is clarified in each case by further words or by the accounts in which it is used. In Mexico and in some European countries a certain proportion of the profits must be set aside as a legal reserve.

Reserve, Legal Minimum: (See " reserve, legal.")

Reserve, Maintenance: An amount reserved before determining net worth to cover costs of maintenance. Its object is to spread equitably over operations the cost of maintenance, although that cost may be actually incurred at irregular intervals and in unequal amounts.

Reserve, Minimum: (See " reserve, legal.")

Reserve, Pension-fund: An amount reserved before determining net worth and represented by actual funds set aside for the purpose of charging against current profits from time to time the amount which it is necessary to accumulate to provide for future pensions.

Reserve, Profit-sharing: It is frequently arranged that employees or others who share in profits do so only if certain conditions be met—thus the profit sharing may be payable only if an employee remain with the employer for a specified time. In such case the amount of profit that may be payable is set up as a profit-sharing reserve. Where the profit payable under a sharing plan is positively payable it is to be taken up as a direct liability, not as a reserve.

Reserve, Relief-fund: An amount reserved before determining net worth, and represented by actual funds set aside, for the purpose of providing help for certain beneficiaries—usually employees—in time of need.

Reserve, Repairs-equalization: An amount reserved, at a fixed rate, before determining net worth, against which repairs are charged. The object is to spread equitably the cost of repairs although the actual repairs may occur at irregular intervals and in unequal amounts.

Reserve, Secret: (See " reserve, hidden.")

Reserve, Sinking-fund: An amount separated from the remainder of the surplus and represented by actual funds set aside to provide for some obligation or payment to be made at a future time. It is not a liability, but a part of the surplus.

Most accountants are of the opinion that a reserve may be of such a nature that it should not be represented by a fund; and thus a reserve for bad debts is represented by part of the accounts receivable.

Pension funds, sinking funds and some other true funds are represented by reserves, and it is considered good practice to name the reserves in such a way as to indicate that they are represented by the actual setting aside of cash or marketable securities.

There are insurance reserves for those who insure themselves, and these may or may not be represented by cash. In one case one may say "insurance reserve," in the other one may say "insurance-fund reserve."

Rest: A term used in the calculation of interest on current accounts. If the conditions of an account were 4% in quarterly rests, the account would be adjusted each quarter and interest inserted. The new quarter would then start with a balance, including interest, upon which interest would be charged or allowed at the end of the next quarter.

In the reports of the Bank of England, the term has a special meaning and represents the excess of assets over liabilities.

Returns: The word has several meanings:

1. A statement rendered periodically from a branch to the head office.
2. Goods returned by a purchaser to a vendor.
3. Goods sent to a customer, or received from a vendor, which are returned for any reason. The total should be deducted from the gross sales or the gross purchases, as the case may be.
4. Various special forms of statements, such as income-tax returns, election returns, etc.

Revenue: Income of a government derived from taxes, customs or other sources. The word is also applied to the operating income of public-utility companies.

SALARY: The compensation paid periodically for services rendered, usually of an administrative rather than of a mechanical character.

The difference between salary and wages varies according to circumstances and according to the views of those using the terms; some base the distinction on the amount involved, while others discriminate according to the nature of the service.

As a general rule it may be said that in manufacturing and mercantile concerns salaries are usually unproductive labor, while in the professions they are frequently productive.

Sale: While a sale has been defined as the transfer of ownership of property for a monetary consideration, the term has a wider significance when used in accounts, for under the head of "sales" are often properly included items which are in fact only agreements to sell as, for example, many real-estate contracts.

"A sale of goods is an agreement whereby the seller transfers the property right in goods to the buyer for a consideration, called the price." (Sales act.)

It differs from barter which is an exchange of goods, from a gift for which there is no consideration, from a bailment where there is no transfer of title and from a chattel mortgage which is given merely as security.

A sale is the exchange of a commodity, right, property or any other subject of bargain for some consideration. In the terminology of accountancy the term is used in a somewhat broader sense and agreements to sell are frequently treated as sales, except in the case of sales of the product or merchandise of a concern; which are taken in as sales only when shipments are actually made. The terms of sales may vary greatly: they may be for cash, or part cash and part some other consideration; they may include promises to pay or the assumption of specified liabilities, or they may include exchange for other property. In brief, "sales" includes transactions transferring or agreeing to transfer property regardless of the terms, time or method of payment.

Sales, Cost of: (Better entitled "cost of goods sold.") This is the cost of those goods that have been sold and delivered during the period covered by the account. This consists in the case of trading concerns of the purchase cost of the merchandise sold, including inward freight and delivery expense, and in the case of manufacturing concerns of the total production cost of the goods sold, including raw materials, labor and manufacturing expenses.

It is usual to include in cost of goods sold the ordinary shrinkage of inventory and losses due to obsolescence and market changes. Special losses of this kind should be shown separately if they are of substantial amount, but those variations of inventory which are inseparable from normal trading are properly classed as cost of goods sold.

In business where services rendered constitute the principal basis of charges to customers, such as laundries, garages, undertaking establishments, etc., in which it is not unusual to speak of the transactions as sales, the use of the expression " cost of sales " is preferable.

Sales, Gross: The total sales as shown by invoices, before deducting returns, allowances, etc.

Sales, Net: The gross sales less returns and allowances including freights, trade discounts, etc.

Salvage: (1) The goods which are saved from loss by fire or at sea.
(2) The cost of saving such goods.
(3) Residual value of discarded assets.

However, the word is frequently used to indicate the recovery of anything from a position, or condition, of danger.

Schedule: A list of articles, or items, or amounts, often subsidiary to or explanatory of a complete statement.

Accountants observe a distinction between " exhibits " (*q.v.*) and " schedules." The former may include many statements of varied character, *e.g.*, balance-sheet, profit-and-loss account and various analyses; while the latter is usually applied to statements such as lists of debtors, of creditors, of stockholders, of receivables, of payables, etc.

Scrip: A temporary certificate issued to show that the holder is, or will be, entitled to a permanent certificate, cash or some other security described in the scrip.

The term is frequently used to designate fractional issues of securities during reorganization.

The character of any particular scrip is indicated by its name, such as dividend scrip, etc.

The term " inscribed scrip " is used in Great Britain by corporations which do not issue certificates of stock but inscribe the names of holders in a register.

Securities: When used in a balance-sheet the term " securities " denotes stocks, bonds, certificates of indebtedness and other corporate or government obligations.

When used under the heading of current assets, the item includes only temporary investments of the funds of the business in securities of a marketable character.

Securities of subsidiary corporations, held for temporary investment and readily marketable, should include only bonds or other funded obligations or preferred stocks which can be sold in open market, and they are eligible for classification as current assets only if they can be so sold in a short space of time without affecting the market.

Shares and Stock: Stock is the term given to the stated capital of a corporation. It is divided into units called shares, which are almost always indivisible. Fractions of shares may sometimes be issued and transferred on the books of the issuing corporation, but their transfer is looked upon with disfavor.

In British practice a share may represent the portion of the joint stock company's capital owned by a stockholder, transferable only in its entirety. In order to make such shares transferable in smaller amounts they are frequently converted into stock, which is transferable in fractional parts.

This use of the word "share" in place of "stock" and of "shareholder" in place of "stockholder" is almost entirely confined to Great Britain.

Single Entry: Strictly, a system of bookkeeping in which only personal accounts are maintained.

In general, it is an incomplete system of accounts varying in extent according to the circumstances. There is no detailed record of gains or losses, the statement of financial condition is prepared from any data available and the profit and loss must be ascertained by a comparison of the present condition with the condition at a past date.

Sinking-fund Income: Like all other funds, sinking funds are made up of cash, its equivalent, or readily marketable securities. The interest and other income from these assets are the sinking-fund income, and they should be added to and become part of the fund. If a sinking fund be provided for the retirement of bonds it may be used to purchase some of the bonds to be retired. In that case the bonds are not canceled, but the coupons, when due, are paid into the fund so that the fund may not be deprived of the income to which it is entitled.

Statement, Annual: A statement, rendered to stockholders and the public each year by one or more of the principal officers of a corporation, summarizing the operations of the corporation for the past year. Such statements include a condensed profit-and-loss account, balance-sheet and usually comment by the chairman or president of the corporation on the year's business and the prospects for the future. Comparative figures for prior years should be and usually are given. Other data may accompany the principal accounts.

Statement, Articulation: A statement in which the total of transactions of each of several classes is shown in its dual relation to the accounts credited and the accounts debited.

It is prepared on a form having vertical and horizontal columns, one vertical and one horizontal column being assigned to each account, corresponding to a ledger page. Then, if the vertical columns be selected as the credit columns the total of items to the credit of, say, account No. 1 and to the debit of account No. 2 would be entered in vertical column No. 1 on a horizontal line opposite account No. 2. The vertical footings show the total credits to each of the accounts, and the cross footings of the horizontal columns show the debits to each account. These statements are almost unknown in actual business and are used in teaching. A practical use is made of them in certain summaries of baseball results, showing games won and lost by each club, the clubs to which they have lost and those from which they have won.

Statement, Bank: This may refer to two unrelated things. If it be a bank's own statement it does not differ materially from a financial statement of any other concern. If it be the statement of a bank to its customer it may, under modern American practice, be a list of customers' cheques paid, of other debits, of balance at the opening date, of deposits or other credits and of closing balance.

Statement, Clearing-house: At the close of a day's business on the stock exchange each broker submits a " clearing-house statement " showing all his trades on the exchange and showing also the net amount by which his purchases exceed his sales or vice versa. These statements for all brokers are compared and reconciled by the clearing house. Some brokers have money to pay on the whole day's work; others have money to receive. Those who have to pay money do so by a cheque to the clearing house; those who have money to receive are paid by the clearing house. Similarly, the statements show the net quantity of each security to be received or delivered, and the deliveries to the clearing house by those having to deliver securities exactly suffice to satisfy brokers who have to receive securities. The clearing house itself sometimes issues statements of its activities.

Other exchanges, coffee, cocoa, cotton, etc., and banks have similar clearing methods. All such clearing organizations offset one transaction of a member against another so far as it can be done, so that the actual stock and money that pass constitute a net amount for each member.

Statement, Comparative: A statement of assets and liabilities, operations, or other matters, giving figures for more than one date or period, so that comparisons may be made.

Statement, Consolidated: A statement showing the financial condition or operating results, or both, of two or more enterprises as they would appear if they were one enterprise. This involves the elimination of inter-company accounts and transactions.

Statement, Consolidated Income: An income statement of the character described under consolidated statements, in which the income of two or more enterprises is stated as it would appear if all the transactions were those of one enterprise.

Statement, Daily Cash: A statement, rendered usually to the treasurer of a corporation, showing the receipts and payments of the day, balance brought forward from the preceding day and balance at the close. The closing balance should be so stated as to inform the treasurer of the amount in each bank and amount undeposited. The statement may include large liabilities falling due shortly.

Statement, Expense: Usually this term is applied to a statement of personal expenses of travelers, salesmen and others. It has no precise technical meaning.

Statement, Interim: A statement prepared at any date between the opening and closing of books. A good example is found in the monthly statement of operations showing the actual expenditures and revenues for the month and/or since the previous closing of the books, and often including an estimate of the profit.

Statement, Financial: This has no precise technical meaning. It is applied to any statement dealing with the financial condition of any organization or person.

Statement, Income: (See " statement of income and expenditures " and " statement of income and profit-and-loss.") A statement of income without expenditures should not be made—unless there are no expenditures.

Statement, Manufacturing: A statement showing for a specific period (1) quantity manufactured, (2) details of direct cost of labor and material and (3) expenses of manufacture. Such a statement, made by a concern engaged in manufacturing, selling and trading, should show as expenses of manufacturing all those expenses which would be incurred if it were engaged solely in manufacturing, apportioning as justly as possible any expenses incurred jointly for manufacturing and other activities.

Statement of Account: When two parties deal with each other, not for cash, either of them may send to the other a statement showing the condition of the account, giving details of debits and credits and of the balance. Such a statement is a statement of account.

Statement of Affairs: In accounting this is a statement of liabilities and assets, excluding capital stock or other capital, usually prepared for creditors of an enterprise which is financially embarrassed. It should show as clearly as possible the relative liquidity of assets, the secured liabilities, and the amount expected from realization of assets, not the book values; and it should be accompanied by a statement of any material facts, such as contracts existing, etc.

Statement of Earnings and Expenses; Statement of Earnings: This is a statement of part of the profit-and-loss account prepared by an enterprise engaged in rendering physical services, showing the income from such sources and the expense of doing the work. It does not include incidental income from sources other than the principal business or expenses other than those necessary to that business. Interest on obligations, interest received from investments and some other items are taken up in a separate part of the profit-and-loss account.

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.

Statement of Income and Expenditures: This term is properly applied to statements showing the amounts of income and of expenditures of (1) professional undertakings on a cash basis, (2) personal accounts on a cash basis, (3) trusts, charities, societies, colleges and kindred institutions receiving income from fees, gifts, endowments and investments. It should not be used in mercantile business. Capital expenditures and receipts from realization of capital assets should be excluded.

Statement of Income and Profit-and-loss: This is a title given to some statements in which the profit-and-loss account is divided into two sections, one (the income section) containing ordinary business income and expense, the net result of which is carried down to a profit-and-loss section, which takes up any additional income not arising from ordinary business and items of expense which are considered not properly chargeable against ordinary business. The line of division is vague; it needs careful consideration in each case.

Statement of Loss and Gain: (See " statement of profit-and-loss.")

Statement, Operating: A section of the profit-and-loss account of an enterprise engaged in a business of such a character that performance of physical service is the principal source of revenue. Railways, gas and water companies and other public utilities may properly issue operating statements. Such a statement sets forth the ordinary income arising from the principal business of the enterprise and the cost of rendering the service.

The expression is also applied to the cost statements of certain businesses or departments, such as foundries, smelters, ice-plants, etc.

Statement, Percentage: A statement of profit and loss, giving not only the concrete figures for each item of cost and of income but also figures showing the ratio of each to some base. Usually the percentages are calculated as parts of the total of ordinary net sales, but occasionally the total net cost is taken as 100%.

Other statements, such as manufacturing statements, may be accompanied by percentage figures. The basic figure, taken as 100%, will in each case be selected to fit the requirements. For a manufacturing account the basis is usually total net cost of goods manufactured.

Statement, Pro-forma: A statement consisting of imaginary figures, but exhibiting the form in which the figures would appear if they were actual. Statements that are partly estimated, given as an indication of what the actual figures will be, should not be called pro-forma statements, but estimated or approximate statements. Recently the term "pro-forma" has been applied to balance-sheets of a character not imaginary but constructively real. (See definition of "pro-forma balance-sheet.")

Statement, Realization-and-liquidation: This term refers to a statement showing the progress made in liquidating the affairs of an enterprise that is going out of business, because of insolvency or for other reasons. Any form clearly setting forth the progress of liquidation is permissible. The "realization" is the conversion of assets into money and the "liquidation" is the payment of liabilities and return of capital.

Statement, Recapitulation: This term has no specific technical meaning. It is any statement that summarizes the figures of a more extended statement.

Statement, Receipts-and-disbursements: Needs no definition. (See "statement, daily cash.")

Statement, Receipts-and-payments: Needs no definition. (See "statement, daily cash.")

Statement, Reconciliation: When two parties deal with each other, each will keep an account with the other. Owing to delays in mail, differences of currency, failures of one to notify the other of debits and credits, disputes, difference of accounting methods, and for other reasons, the accounts of one party may show a condition differing from that shown by the books of the other. A statement setting forth these differences and showing that the accounts agree in other ways is a reconciliation statement.

A familiar case is the reconciliation statement of the books of a bank depositor with the bank's statement. Cheques drawn but not presented for payment, interest credited but not taken up by the depositor, deposits made after bank closing hours and other items may appear on a statement reconciling the balance as stated by the bank with that shown by the books of the depositor.

The approved procedure in preparing a reconciliation statement is to apply to the balances shown by the respective parties adjustments representing the items which should be taken into account by them as of the date of the reconciliation, bringing each into agreement with the correct balance between them. (See also "account, reconciliation.")

Stock, Debenture: A term used exclusively in Great Britain. (See "bonds, debenture.")

Debenture stock is borrowed money consolidated into one sum for the sake of convenience. Debentures (bonds) need not be fully paid; debenture stock must always be fully paid. Debenture bonds are transferable only in their entirety; debenture stock is transferable in multiples of a pound sterling.

Stockholder: The legal owner of one or more shares of stock in a corporation. The person named on the face of the certificate who is registered in the books of the company, notwithstanding any transfer which may have been made but has not been registered in accordance with the requirements governing that specific corporation.

Stock on Hand; Stock in Trade: Synonymous terms signifying goods on hand either in an unfinished or in a complete condition. They appear in a balance-sheet under "inventory" and each class should be shown by itself.

Stores: (1) Raw materials to be used in manufacture as distinguished from manufactured stock.

(2) Sundry operating supplies for repairs required in operations.

(3) The contents of a "store-room" maintained to provide the current requirements for consumption.

Subscription: (1) An offer or agreement by a purchaser to buy specified capital stock. It is not binding until it is accepted.

(2) Current payments for contributions to funds, for publications, etc., usually recorded in an account such as " subscriptions and dues."

Supplies: Synonymous with " stores."

Surplus: This word is a contraction of two Latin words, super: meaning above, and plus: meaning more; something left over after certain requirements are fulfilled.

As applied to corporations or similar forms of legal entity organized and conducted for profit, surplus, in its broadest significance, means the excess of assets over liabilities and capital. When used without qualification, or designated as " unappropriated," " free " and the like, and in absence of legal restriction, it indicates the maximum amount of undistributed profits which, if available in liquid form, may be distributed to stockholders or other legal participants at the discretion of directors or others charged with authority for such distribution. When designated as "appropriated," " reserved," and the like, it indicates the amount of undistributed profits withheld for some specific purpose.

Surplus (a) may be accumulated through the normal operations of a business, (b) may be paid in upon incorporation or as part of later financing, (c) may result from a reappraisal of assets, (d) may be acquired through the purchase of a company's own stock or obligations, or in other ways.

In some corporations " profit and loss," " undivided profits," or " loss and gain " is used in place of " surplus," and in other cases two accounts are kept, one, designated as " profit and loss " or " loss and gain " to reflect the results of current operations, while the other, called " surplus " is the account to which the former is transferred at the end of a fiscal period.

In partnership accounts, the account corresponding to " surplus " is usually designated " profit and loss " or " undistributed profits " and is distributable in accordance with the partnership agreement, whether written or oral.

The surplus of a government (federal, state or city) or of a corporation or other form of legal entity not organized or conducted for profit (*e.g.*, an educational, eleemosynary or religious organization) is the excess of available resources over obligations and commitments, which may be used for future activities.

Surplus in its broadest sense is the amount of the stockholders' equity in a corporation in excess of that represented by capital-stock accounts.

The unqualified terms " surplus " and " capital surplus " are not recommended as adequate captions for balance-sheet purposes.

Surplus, Appraisal: The assets of an enterprise, especially the fixed assets, may be carried on the books at values far above or far below actual present values. Because of the general fall in the value of monetary units in recent years, assets purchased many years ago are often carried at values incommensurate with present prices. To rectify this condition it is common to have values fixed by appraisal. If the values so fixed exceed the book values and are substituted for them an apparent surplus is created. This is the appraisal surplus.

Surplus, Appropriated: Part of a surplus set aside for some specific purpose, such as retirement of preferred stock or of obligations or for the extension of permanent plant. Such appropriated amounts remain part of the surplus unless they are formally transferred to capital account.

Surplus, Book: The surplus as shown by the books without correction for understatement or overstatement of assets and liabilities.

Surplus, Capital: Capital surplus comprises paid-in surplus, donated surplus and revaluation surplus—that is, surplus other than earned surplus; surplus not arising from profits of operation, but from such sources as sale of capital stock at premium, profit on dealings in a corporation's own stock, donated stock, appraisal valuations and surplus shown by the accounts at organization.

Surplus, Contributed: This is a capital surplus arising from contributions by stockholders or others. Such surpluses are unusual. A surplus arising from assessment on stockholders is a capital surplus, but not a contributed surplus.

Surplus, Corporate: The surplus of a corporation.

Surplus, Current: The surplus from which dividends may be paid. It is derived from profits of a business, including all realized profits whether ordinary or extraordinary, but excludes capital and appraisal surplus.

Surplus, Donated: Donated surplus arises from donations by stockholders or others of cash, property or capital stock.

Surplus, Earned: The special committee on terminology, in place of definitions of its own for certain kinds of surplus, is adopting for purposes of this tentative report a report of a special committee on definition of earned surplus which was presented at the annual meeting of the American Institute of Accountants in 1930 and was received but not accepted. The special committee on terminology feels that the purpose which both reports are intended to serve, namely, the encouragement of criticism and suggestion, will be fostered by the inclusion of this special report.

"DEFINITION OF EARNED SURPLUS

"Earned surplus is the balance of the net profits, net income, and gains of a corporation after deducting losses and after deducting distributions to stockholders and transfers to capital-stock accounts.

"COLLATERAL DEFINITIONS

"Surplus consists of capital surplus and earned surplus. Capital surplus comprises paid-in surplus and revaluation surplus, that is, all surplus other than earned surplus. Paid-in surplus is the amount received from the sale or exchange of capital stock in excess of its par or stated value; the excess of the par or stated value of capital stock retired over the amount paid therefor; profits on resales of treasury stock; and surplus arising from a recapitalization. Paid-in (or donated) surplus also includes donations to a corporation by its stockholders or others of cash, property and capital stock. Revaluation surplus is the appreciation recognized as arising from an appraisal of fixed assets.

"Net profits, net income, and gains include profits from the disposition of any corporate asset (other than the corporation's own capital stock), and arise from transactions resulting in the acquisition of cash or of property which at the time of its receipt may ordinarily be classified as, or converted into, a current asset; or from transactions in which the consideration received includes the complete or partial discharge of a liability.

"STANDARD PRACTICE IN PRESENTATION OF SURPLUS ACCOUNTS

"The unqualified terms 'surplus' and 'capital surplus' are not sufficiently descriptive captions for balance-sheet purposes.

"Earned surplus is not properly merged with capital stock or with capital surplus on the balance-sheet.

"Earned surplus accumulates from the date of incorporation or from the date of a recapitalization when a deficit is absorbed by the authorized reduction of the par or stated value of the outstanding capital stock.

"Changes in earned surplus during the fiscal period following the date of the next previous balance-sheet are pertinent details on balance-sheets not accompanied by a statement of surplus.

"Extension and improvement reserves, reserves for the retirement of corporate securities and other appropriated earned-surplus items, although not available for distribution to stockholders, are properly shown as subdivisions of earned surplus on the balance-sheet. Where it is provided that retirements of a preferred stock or bond issue are to be made 'out of earnings' and where it is the intent of the provision that earnings of an equivalent amount are to be retained in the business, such earnings should be segregated and distinguished on the balance-sheet from unappropriated earned surplus.

"Dividends paid in cash or property are properly charged against earned surplus. Stock dividends are reductions of earned surplus or of capital surplus in accordance with the authorization therefor. A loss resulting from the retirement of capital stock or from the sale of treasury stock is a reduction of paid-in or of earned surplus, according to the nature thereof. Disclosures are necessary when dividends, losses, or expenses are deducted from capital surplus.

"Profits from the sale of fixed assets should be disclosed in the year of the transaction if the amounts are relatively significant.

"When a corporation states its fixed properties on the basis of appraisal values which exceed the former book values, depreciation computed on the appraisal values is properly charged against operations, If a corporation has not in any way legally or morally obligated itself to maintain the assets at their increased valuation out of earnings, depreciation on the excess of appraisal over book values may, by reason of past practice, be charged directly against revaluation surplus, provided a disclosure is made.

"Surplus of a subsidiary corporation accumulated prior to the date of the acquisition of its stock by a parent corporation is not a part of consolidated earned surplus. A dividend declared out of such surplus by a subsidiary is applicable by the parent corporation as a reduction of its investment in the subsidiary.

"Occasions will arise where the practice as herein set forth can not be strictly complied with, due to properly authorized corporate action under permissive statutes or to agreements between a corporation and its bankers or investors. In these instances adequate disclosures must be made. A disclosure may be general or specific and it may be limited to the year of the transactions or continued, according to the relative amount and significance of the item."

Surplus, New; Surplus, Old: When a corporation undergoes a reorganization, it frequently happens that a surplus existing before reorganization is treated as a capital or quasi-capital item, and profits after the reorganization are carried to a new account—hence the terms "new" and "old" surplus. These terms are of little value and have not an established technical meaning.

Surplus, Paid-in: Paid-in surplus is the amount received from the sale or exchange of stock in excess of its par or stated value, and it includes surplus arising from a re-capitalization.

Upon the formation of many corporations, especially those engaged in banking, an amount in excess of the face value of the capital stock is paid for the stock. The excess is paid-in surplus. It may be paid in either in money or in other assets.

Surplus, Reserved: A part of the surplus set aside for some specific purpose, such as a " general reserve." It is, in fact, still a part of the surplus.

Surplus, Revaluation: Revaluation surplus is the appreciation recognized as arising from the appraisal of fixed assets.

Surplus, Unappropriated; Surplus, Uncommitted; Surplus, Unencumbered; Surplus, Unreserved: That part of surplus which has not been set aside for any specific purpose but remains available for any purpose to which surplus may be applied.

Syndicate: Specifically, a group of financiers organized for some purpose such as to underwrite an issue of bonds.

In general, the term is used to indicate a union of interests for some common purpose, but it is so indefinite that no absolute definition can be given it.

System of Accounts: Synonymous with "plan of accounts" (*q.v.*).

TICKLER: A record kept to tickle or refresh the memory and to show the maturity dates of obligations.

In a bank the most important tickler is that showing the maturities of all notes; in an insurance office, the dates when policies expire or when premiums are due; in real-estate offices, the maturities of interest and of instalment payments on real estate sold on terms, etc.

With such varied uses no form can be prescribed—bound books, loose-leaf books and card systems are employed.

Trial Balance: A list of all balances in a ledger. In a double-entry system of books the totals of debit and credit balances must be equal, but their equality does not prove their correctness, for mistakes of various kinds may exist, *e.g.*, compensating errors, where a mistake of equal amount has been made on each side, or in the posting of items to wrong accounts.

When closing a set of accounts it is customary to take off a trial balance on columnar paper, to enter on it all adjusting entries which are required, and then to use the statement as the basis for drawing up the profit-and-loss account and the balance-sheet.

Trust: Blackstone defines a trust as " an estate devised or granted in confidence that the devisee or grantee shall convey it, or dispose of the profits, at the will of or for the benefit of another; an estate held for the use of another."

Colloquially the term is used to designate a combination of business enterprises for the purpose of reducing competition or of effecting greater economy in operation.

Turnover: Turnover is the number of times merchandise or stock in trade is bought and sold during a stated period, usually twelve months.

If inventories be calculated at cost, the turnover is ascertained by dividing the cost of sales by the average inventory carried during the period. If the inventories be carried at selling prices, the turnover is ascertained by dividing the total sales by the average amount of inventory carried during the period.

In England the term is applied to the total amount of deliveries or shipments of an undertaking made during a specific period. Colloquially the word " turnover " means the amount of the output stated in money. Thus a merchant would say:—" My turnover is £20,000 a year, and my output is 4,000 tons."

Turnover, Labor: The frequency of change in the personnel of a working force.

VALUE, ACTUAL: Not a precise term. In common usage it means real value as distinguished from a value shown by books or records.

Value, Appraised: A value estimated by appraisers after physical examination of assets, usually fixed assets.

Value, Assay-office: Value of metals or ores based on the bullion content as shown by assay.

Value, Assessed: A value set upon real estate by government assessors for the purpose of assessing taxes. Such taxes are computed as a percentage of the values of the properties, and the values used for assessment are intended to be a fair but conservative estimate of the price for which the property could be sold. In some districts assessed values are fixed at some percentage of estimated sale value (less than 100%), and the same percentage is applied to all property subject to the same tax.

Value, Book: Value as shown by books, not corrected for any understatements or overstatements.

Value, Break-up: The amount which could be obtained for assets at forced sale and upon discontinuance of their use in a business.

Value, Bullion: The value of ores or metals based upon the content of gold or silver.

Value, Carrying: When stocks are pledged for loans the amount that will be advanced by banks on their security is a percentage—generally about 80%—of their value. This value, however, is not necessarily the market quotation, but a more conservative value fixed by the lending banks and called the carrying value. The difference between market and carrying value is greatest in the case of highly speculative securities, especially in an excited market.

Value, Cost of Reproduction New: The normal cost of replacement of equivalent property of like kind new under given conditions and in accordance with market prices for materials and labor at a specific time.

Value, Depreciated: The residual value of assets that have lost part of their original value by wear and age. Technically the words mean original value less accrued depreciation. This term does not distinguish between book and actual value of assets, but indicates only that the value given is stated after deducting a provision for depreciation. The question whether the value given is based on cost, appraisal, or estimated reproduction cost (in each case less a provision for depreciation) must be met by further explanation.

Value, Earning-capacity: In valuing a going concern, or shares of its stock, it has been argued that there is no intention to liquidate the assets and that the only return hoped for is the profit to be made and presumably distributed in future. Accordingly, values have been estimated on the basis of the present value of a permanent annuity of the amount of the earning capacity as shown by past experience, discounted at some rate depending upon the estimated probability of the continuance or growth of the earnings.

In such computations the value of the tangible assets has no influence, except as it may be thought to throw light on the prospect of continued profit. The value so found is the earning-capacity value. It was one of the alternate methods used by the United States government in computing the value of capital stock for the purposes of the capital-stock-tax law.

Although logically correct its computation is so dependent upon personal views and opinions that the results are often widely divergent. Stock-market prices are largely based on such estimates of values.

Value, Face: Value of bonds, stocks, mortgages and similar securities as set forth in the documents themselves.

Value, Fair Market: A term used in income-tax-law, said to mean the probable value that would be fixed by a willing buyer and a willing seller.

Value, Forced-sale: Value that could be obtained if the asset under consideration were sold at once for whatever price could be obtained.

Value, Foreclosure: Not an established technical term.

Value, Going: Estimated value of assets that are now in commercial use with the presumption that the use is to be continued.

Value, Insurance; Value, Insurable: The value for which any property may be insured.

Value, Intangible: A value based upon considerations other than the intrinsic value of tangible assets. Goodwill, trade-marks and rights-of-way are examples of assets having intangible values.

Value, Intrinsic: Value based upon tangible assets, including only their value when separated from any special intangible value that may attach to them in their present use.

Value, Junk: Residual value of the old materials when physical assets are completely broken up and discarded.

Value, Liquidation: The price that can be obtained upon liquidation of a business and sale of its assets.

Value, Market: Value computed on the basis of market quotations.

Value, Nuisance: This is not a true value but is the amount that some one, other than the owner of a property, will pay for it, not for its own sake but because in its present hands it is an annoyance or is actually damaging to the prospective buyer.

Value, Original-cost: The amount paid for an asset by its present owner, including the cost of subsequent betterments and without any deduction for depreciation. Ordinary repairs and maintenance are not part of original cost.

Value, Residual: The value remaining after the usefulness of an asset has been partly exhausted. Such assets as stereotype plates for books that have been issued in one or more editions and moving-picture negatives that have been partly exploited have residual values that are not dependent upon physical conditions, but to the extent to which the articles may profitably be used in the future.

Value, Sales: This term is applied to value placed upon merchandise computed at selling prices. Where costs are not available, as in the case of merchandise on the shelves of some department stores, inventories are valued at selling prices and an amount equivalent to the percentage of departmental gross profit usually made on sales is deducted from the total of the relevant department. The treasury department has issued special regulations dealing with this matter and with the procedure to be adopted in the case of mark-downs, mark-ups, etc., which should be studied.

Value, Scrap: (See "value, junk.")

Value, Sound: The value for continued use by a going concern based upon the cost of reproduction new less an allowance for accrued depreciation in accordance with the age, condition and remaining expectancy of serviceable life.

Value, Surrender: A term applied to the amount recoverable from an insurance company upon the surrender of a policy before its date of expiration.

Value, Tangible: Value represented by tangible assets, excluding goodwill, trade-marks and similar assets.

Value, Undepreciated: Value before making any deduction for depreciation.

The term does not indicate whether the value is based upon cost, appraisal or assessment, but means only that depreciation has been ignored. The term needs qualifying of words to indicate what has been taken as the basis of computation.

Verification: The act of proving any statement to be true. It may apply to many items, *e.g.*, verification of postings, of footings, etc., or it may apply to one item, *e.g.*, verification of cash on hand.

Verification of accounts payable and receivable is usually effected by communicating with debtors and creditors and asking them to verify the accuracy of balances shown against them or in their favor.

Voucher: A document vouching or certifying a certain transaction, especially a writing attesting the payment of money.

WAGES: Compensation paid periodically for services rendered, usually of a mechanical or manual character. (See " salary.")

Wages, Productive: In accountancy, wages paid to workers actually engaged in the physical production of merchandise or to workers performing services for which their employers are to be paid. In accountancy, wages are productive if they directly produce income to the employer. In economics wages are considered productive if they are directly productive of values to the community. The term is used principally in manufacturing.

Wages, Unproductive: Wages of workers who do not directly produce merchandise nor perform physical services for which their employers are paid.

Working Papers: The papers prepared or used by an auditor while making any examination upon which his report is based. Usually they begin with a trial balance and include all necessary verifications, adjustments, explanations and schedules used by him.

Worth: The value of something expressed in terms of some standard of equivalency or exchange; the worth of an article is usually the price it will bring in the market, but price is not always worth.

Worth, Net: The amount by which the total assets of a concern exceed the total liabilities. The amounts of any reserves required to reduce assets to their actual value should be deducted from the assets, and reserves for liabilities accrued should be included in the liabilities.

In a corporation net worth includes all capital stock outstanding together with the amounts standing to the credit of surplus accounts and of undivided profits.

Worth, Present: The present worth of a given sum due at a specified future date is that amount which, if invested now at a given rate of interest, the interest being compounded, will at the specified future date produce the given sum.

Write-up; Write-down: (See " mark-up.")