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Accounting TERMINOLOGY BULLETINS

March, 1955

No. 2

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Prepared by
Committee on Terminology
American Institute of
Certified Public Accountants
270 Madison Avenue, New York 16, N. Y.

**Proceeds,
Revenue, Income,
Profit, and Earnings**

INTRODUCTION

1. The terms *revenue*, *income*, *profit*, and *earnings* refer to closely related concepts. In general, they relate to the increase (or decrease if negative) in the owners' equity which results from operations of an enterprise. They are, therefore, to be distinguished from receipts such as collection of receivables, and from proceeds of a loan or bond issue, or the capital contributions by owners.

2. The committee has examined the usage of these terms in accounting, economic, and legal literature and believes that the lack of uniformity found in practice is unfortunate and confusing. To promote uniformity of usage, the following definitions and recommendations are made for the use of these terms in connection with business operations and financial statements. The term *proceeds* also is included in the list of terms considered.

DEFINITIONS AND RECOMMENDATIONS

Proceeds

3. Definition:

Proceeds is a very general term used to designate the total amount realized or received in any transaction, whether it be a sale, an issue of stock, the collection of receivables, or the borrowing of money.

4. Recommendation:

This term is not ordinarily used as a caption in the principal financial statements and generally should be used only in discussions of transactions.

Revenue**5. Definition:**

Revenue results from the sale of goods and the rendering of services and is measured by the charge made to customers, clients, or tenants for goods and services furnished to them. It also includes gains from the sale or exchange of assets (other than stock in trade), interest and dividends earned on investments, and other increases in the owners' equity except those arising from capital contributions and capital adjustments.

6. Revenue, like proceeds, is a gross concept but revenue, unlike proceeds, does not include items such as amounts received from loans, owners' investments, and collection of receivables. In the case of ordinary sales, revenue is generally stated after deducting returns, allowances, discounts, freight, and other similar items; and in the case of sales of assets other than stock in trade, it is generally stated after deducting the cost of the assets sold. The revenue for a period less the cost of goods sold, other expenses, and losses will give the net results of business operations for the period. Revenue from ordinary sales or from other transactions in the ordinary course of business is sometimes described as operating revenue.

7. Recommendation:

It is recommended that this meaning of the term revenue be adopted and that the term be more widely used in the preparation of financial statements and for other accounting purposes.

Income and Profit

8. Definition:

Income and *profit* involve net or partially net concepts and refer to amounts resulting from the deduction from revenues, or from operating revenues, of cost of goods sold, other expenses, and losses, or some of them. The terms are often used interchangeably and are generally preceded by an appropriate qualifying adjective or term such as “gross,” “operating,” “net . . . before income taxes,” and “net.” The terms are also used in titles of statements showing results of operations, such as “income statement” or “statement of profit and loss,” or, sometimes, “profit and loss account.”

9. The term *gross income* is often used as the equivalent of revenue; in public utility practice it is commonly used in referring to net income before deducting interest and other income charges. The term *gross profit* is frequently used to describe operating revenue less the cost of goods sold. The terms *operating income* or *operating profit* are generally used to denote “gross profit” less ordinary expenses. The terms *net income* or *net profit* refer to the results of operations after deducting from revenues all related costs and expenses and all other charges and losses assigned to the period. These deductions do not include dividends or comparable withdrawals.

10. Recommendation:

The committee recommends that when the terms are used in financial statements, they be preceded by the appropriate qualifying adjective. When referring to items covered by the term “revenue,” the term “gross income” should be avoided. The excess of operating revenue over the cost of goods sold may be described as “gross profit” but such terms as “gross profit on sales” or “gross margin” are prefer-

able. It also is recommended that the terms "operating income," "net income," and "income statement" be used instead of the related terms, "operating profit," "net profit" and "statement of profit and loss." It is, however, proper to use the term "profit" in describing a specific item such as "profit on sale of fixed assets."

Earnings

11. Definition:

The term *earnings* is not used uniformly but it is generally employed as a synonym for "net income," particularly over a period of years. In the singular the term is often combined with another word in the expression "earning power," referring to the demonstrated ability of an enterprise to earn net income.

12. Recommendation:

The committee is hopeful that eventually there will be a single term, uniformly used, to designate the net results of business operations. In recent years there has been a trend toward the term "earnings," although a majority of published financial statements employ the term "net income." Until one or the other of these terms achieves pronounced preference, the committee makes no recommendation as between them. It approves the use of the term in accounting language in connection with the concept of ability to realize net income.

COMMITTEE ON TERMINOLOGY (1954-1955)

EDWARD B. WILCOX, Chairman

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