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Terminology Department

American Institute of Accountants. Special Committee on Accounting Terminology

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

The first committee on terminology was appointed in 1921 and published numerous communications which appeared in *THE JOURNAL OF ACCOUNTANCY* during 1922 and the following years.

Many of the more important terms were defined but, for various reasons, the committee became dormant until this year, when the new members resumed activities immediately upon their appointment by the president of the Institute, and they hope to furnish regular monthly contributions.

The principles guiding the original committee were outlined in *THE JOURNAL* for July, 1922, and will be followed by its successors.

The committee feels very strongly that the value of its work would be greatly enhanced if other members of the profession would coöperate by discussing the definitions as published and by forwarding any suggestions which may occur to them.

The committee earnestly asks for such coöperation and will welcome any communications on the subject, which may be addressed to *THE JOURNAL OF ACCOUNTANCY* or to any one of the members:

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DEFINITIONS

The committee suggests the following definitions:

AUDIT:

An examination of the books of account, vouchers and other records of a public body, institution, corporation, firm, or individual or of any person or persons standing in any fiduciary capacity, for the purpose of ascertaining the accuracy and integrity of the accounting and of certifying thereto upon the statements rendered.

In the absence of any qualifying 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, covering, to the extent that these 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 of an unqualified certification of the accuracy of the statements rendered and of the proper accountability of the fiduciary parties.

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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, defined below, as follows:

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

See also:

- Examination
- Investigation

BALANCE-SHEET AUDIT:

A balance-sheet audit consists of the verification, as of a given date, of the assets, liabilities, capital, surplus and of 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 expenditure, nor does it establish the accountability of the fiduciary parties, except on broad lines.

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 of the statement submitted, or by both report and certificate.

(See "Approved methods for the Preparation of Balance-sheet Statements," *Federal Reserve Bulletin*, April, 1917, reprinted by the United States government printing office, Washington, D. C.)

CASH AUDIT:

An audit limited to the verification of cash transactions for a stated period, for the purpose of determining that all cash received has been duly 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 the extent necessary to substantiate their accuracy. Such an audit establishes the accountability of the persons charged with responsibility for cash, a certificate to this effect being given on a summary in appropriate form of the cash transactions for the period.

COMPLETE AUDIT:

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.

CONTINUOUS AUDIT:

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 completed fiscal period, and further, 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 as may meet the requirements of the individual case.

AUDIT—DETAILED:

This is similar to a complete audit, but sometimes a series of tests is substituted for a complete audit of each and every entry.

In some cases 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, so far as the work goes, 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 being audited.

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.

PARTIAL AUDIT:

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 these terms 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, terminates 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,

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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—PUBLIC:

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. *Accountants' Dictionary*, p. 54.

SPECIAL AUDIT:

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.

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 next audit. Frequently it contains the audit programme.

AUDIT PROGRAMME:

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

It is prepared before the audit is commenced 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 fulfillment does not absolve the auditor of the duty of doing any further work that his observation shows to be necessary.

EXAMINATION:

Without some qualifying term this word has no definite accounting meaning beyond that given by the dictionary. It is used in accounting in conjunction with a statement of what has been examined.

INVESTIGATION:

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 lines 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 more 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 auditors' discretion and is varied during the course of the work whenever matters are found needing inquiry.

An examination made for the purpose of financing, frequently covering accounts extending over a period of years which may or may not have been previously audited, is commonly referred to as an investigation.

INVESTIGATION—SPECIAL:

The proper use of the word "investigation" in connection with accountancy implies some particular object to be gained, or particular result stated, and indicates something different from an audit; hence it is seldom, if ever, necessary to qualify it by the addition of "special" or any similar expression.