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Terminology Department

American Institute of Accountants. Special Committee on Terminology

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Terminology Department

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

A letter from a correspondent leads to the following comment:

It appears that in the case of an eleemosynary institution which has received various restricted endowments, the sums so received are described differently in successive balance-sheets prepared by different accountants.

In one year they appear among the assets as "fund investments": "fund securities" and on the liability side as "funds."

In a following year they appear under the same names on the asset side, but on the liability side are called "fund reserves."

In the report for 1927 they appear among the assets as "permanent fund securities" and on the liability side as "funds capital."

No information is furnished as to the source from which these "funds" arose, but we assume that each one was a gift or bequest, the principal and/or income of which was to be used in a specified way or for some specific purpose and our remarks are based on this assumption.

Such a gift or bequest is in the nature of a trust and it appears to this committee that the term "trust" on the liability side describes the purpose more accurately than any other. If, for any reason, there are objections to this description, we think that the form used in the 1927 accounts, "fund capital," would be appropriate.

The views of the committee regarding the word "fund," as set forth clearly in the issue of *THE JOURNAL OF ACCOUNTANCY* for September, 1928, remain unchanged and we welcome this opportunity of urging that the word be used solely to describe cash or investments.

There is no doubt that in cases such as those which are being considered, it is obligatory to show these amounts on the credit side of a balance-sheet. Either there is a well defined liability on the part of the institution to use such moneys for specified purposes or they are part of the general capital.

In practice, there have been trustees who laughed at the idea of showing such restricted gifts or bequests as liabilities, but with all respect to those gentlemen such objections can have no foundation but that of ignorance, crass and profound.