Accounting TERMINOLOGY BULLETINS

★

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

July, 1957 No. 4

Cost, Expense and Loss

INTRODUCTION

1. In Accounting Terminology Bulletin No. 2 the terms proceeds, revenue, income, profit, and earnings were defined. This bulletin defines the correlative terms *cost, expense,* and *loss.* While ascertainment of cost sometimes involves processes of valuation and allocation, the techniques of ascertainment are not discussed here.

DEFINITIONS AND RECOMMENDATIONS

Definitions

2. *Cost* is the amount, measured in money, of cash expended or other property transferred, capital stock issued, services performed, or a liability incurred, in consideration of goods or services received or to be received. Costs can be classified as unexpired or expired. Unexpired costs (assets) are those which are applicable to the production of future revenues. Examples of such unexpired costs are inventories, prepaid expenses, plant, investments, and deferred charges. Expired costs are those which are not applicable to the production of future revenues, and for

that reason are treated as deductions from current revenues or are charged against retained earnings. Examples of such expired costs are costs of products or other assets sold or disposed of, and current expenses. Unexpired costs may be transferred from one classification to another before becoming expired costs as above defined, e.g., depreciation or insurance on plant may be included in unexpired costs ascribed to inventories.

3. *Expense* in its broadest sense includes all expired costs which are deductible from revenues. In income statements, distinctions are often made between various types of expired costs by captions or titles including such terms as cost, expense, or loss, e.g., cost of goods or services sold, operating expenses, selling and administrative expenses, and loss on sale of property. These distinctions seem generally useful, and indicate that the narrower use of the term *expense* refers to such items as operating, selling or administrative expenses, interest, and taxes.

4. *Loss* is (1) the excess of all expenses, in the broad sense of that word, over revenues for a period, or (2) the excess of all or the appropriate portion of the cost of assets over related proceeds, if any, when the items are sold, abandoned, or either wholly or partially destroyed by casualty or otherwise written off. When losses such as those described in (2) above are deducted from revenues, they are expenses in the broad sense of that term.

Recommendations

5. The term *cost* should be used when appropriate in describing the basis of assets as displayed in balance sheets,

and properly should be used in income statements to describe such items as cost of goods sold, or costs of other properties or investments sold or abandoned.

6. While the term *expense* is useful in its broad and generic sense in discussions of transactions and as a general caption in income statements, its use in financial statements is often appropriately limited to the narrower sense of the term as indicated in paragraph 3. In any event, items entering into the computation of cost of manufacturing, such as material, labor, and overhead, should be described as costs and not as expenses.

7. The term *loss* should be used in financial statements in reference to net or partially net results when appropriate in place of the term income or profit as described in paragraphs 8, 9, and 10 of Accounting Terminology Bulletin No. 2. In such cases the term should generally be used with appropriate qualifying adjectives. It should also be used in describing results of specific transactions, generally those that deal with disposition of assets. The use of the term in the latter type of cases is believed desirable since it distinguishes them from more normal expenses of a recurring type which are generally shown in gross amounts.

COMMITTEE ON TERMINOLOGY (1956-1957)

EDWARD B. WILCOX, Chairman
JOHN K. McCLARE
HERBERT E. MILLER