

Color Accounting eliminates the vagueness of accounting language

The language of accounting is stuck in the dark ages - it has not been updated in 500 years - according to Peter Frampton of Color Accounting International, who also says businesses are failing because of it.



Most people have no idea what an expense actually is

"The words we use to describe fundamental accounting concepts, like "income" and "expense", were used by 15th-century Venetian merchants to describe trade in physical goods like silk and spices," says Frampton. "Businesses and transactions have become a lot more complex since then, but the language hasn't evolved. For example, most people have no idea what an expense actually is -- most dictionaries and even most accountants get it wrong."

Frampton says that when a colleague recently asked a room full of senior financial officers in the UK to choose a definition of "expense", "75% of them defined it as cash going out of the business, which was the worst possible choice. An expense is better described as any activity, specifically one that reduces net value in the business. If even professional accountants are unclear in their definitions, what hope do ordinary business owners have?"

The confusion between income, expenses and cash has profound real-world consequences, says Frampton. "People may be earning income, but that doesn't mean they are receiving cash - they might just be generating accounts receivable. This fundamental vagueness of accounting language is the cause of many business failures."

Frampton's Color Accounting training system focuses on the language of accounting to eliminate the vagueness, he says. "The root of all the confusion is that we accountants think in dualities - we describe not just objects in the world, but also who has rights to those objects. For example, in traditional accounting we describe cash along with the associated

obligation to shareholders or lenders for the cash. Once we begin to define the terms more accurately, the fog lifts. We can see the lights come on for people."

Income and expenses are fundamentally verb-concepts

"When you strip away all the layers, accounting is actually very easy," says Frampton. "There are just five basic elements: You have assets, obligations to lenders and owners for whom the assets are claimed, and then you have income and expenses. A key is understanding that income and expenses are fundamentally verb-concepts, not noun-concepts - they are the activity that either generates or destroys assets, not the assets themselves. That's why an income statement is also called a statement of activities."

If more people were equipped with basic accounting literacy, says Frampton, "we'd all be able to think a lot more clearly about money. People wouldn't stumble into debt, and businesses wouldn't fail because their owners confused income with cash. I see the costs of fear every day - people don't read reports and so they remain ignorant of really critical information."

"I hear many people say they're not good with numbers, but the fundamental problem in accounting is not the numbers but the words," concludes Frampton. "When our language is able to speak as clearly as the numbers do, we'll all be better off."

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