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**THE ANALYSIS OF THE HARMONISATION OF THE  
SEMANTIC CONTENT OF SELECTED ACCOUNTING  
TERMS IN LEGAL TEXTS, PROFESSIONAL  
REGULATION AND SCIENTIFIC LITERATURE <sup>a</sup>**

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**Abstract**

The paper analyses harmonisation of the semantic content of terms liquidity, solvency and over-indebtedness in legal texts, professional regulation, and national scientific literature in the field of accounting. Despite the fact that professional regulation have a unique and clear position on the issue of the semantic content of terms liquidity and solvency, in legal texts, these terms are not clearly and precisely enough delimited, while scientific literature is full of confusions in respect to these terms. The term over-indebtedness is a term which is used almost daily. However, as this is the term which, as a rule, is not mentioned in financial and accounting literature, business people do not usually attach correct semantic content to this term, nor do they clearly demarcate it in relation to the term solvency, despite the fact that the legislator adequately defined it.

**Key words:** liquidity, solvency, over-indebtedness, semantics.

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## АНАЛИЗА УСАГЛАШЕНОСТИ СЕМАНТИЧКОГ САДРЖАЈА ОДАБРАНИХ ФИНАНСИЈСКО РАЧУНОВОДСТВЕНИХ ТЕРМИНА У ЗАКОНСКИМ ТЕКСТОВИМА, ПРОФЕСИОНАЛНОЈ РЕГУЛАТИВИ И СТРУЧНОЈ ЛИТЕРАТУРИ

### Апстракт

У раду је анализирана усаглашеност семантичког садржаја термина „ликвидност“, „солвентност“ и „презадуженост“ у законским текстовима, професионалној регулативи и домаћој стручној литератури из финансијско рачуноводствене области. Упркос томе што професионална регулатива има јединствен и јасан став по питању семантичког садржаја термина „ликвидност“ и „солвентност“, у домицилним законским текстовима ови термини нису прецизно и довољно јасно разграничени, док у стручној литератури влада читава конфузија са наведеним терминима. Термин „презадуженост“ је термин који се готово свакодневно косисти. Међутим, како је реч о термину који се у стручној литератури из финансијско рачуноводствене области по правилу не помиње, пословни људи овом термину често не придају исправан семантички садржај нити га јасно разграничавају у односу на термин „солвентност“, упркос томе што га законодавац адекватно дефинише.

**Кључне речи:** ликвидност, солвентност, презадуженост, семантика.

### *INTRODUCTION*

The transition process encompasses transition from one economic system to another, implying significant changes in legal regulations. In the Republic of Serbia, significant changes occurred in the areas of corporate and bankruptcy law, including the accounting issues. When the field of accounting is taken into consideration, the most important change is that instead of the usual practice of direct legal regulation of the methods of recognition, measurement and valuation of the assets, liabilities, income and expenses, a direct application of the International Accounting Standards or International Financial Reporting Standards was accepted.

The paper examines whether certain accounting terms are given equal semantic content in legal regulations, professional regulation and university textbooks in the field of financial accounting.

In this paper we analyze the blend mix of accounting terms such as liquidity, solvency and over-indebtedness used in professional and legal regulations and laws and in the expert textbooks. The paper evaluates the correct semantic content of the above mentioned terms and reviews adequacy of their definitions in domestic legal texts and academic literature.

The terms liquidity and solvency were chosen because these are the accounting terms the correct semantic content of which is controversial in professional textbooks while the term over-indebtedness is used because

there is no exact distinction between this term and the term solvency. There is a wide confusion among business people and their usage of this term and the definition of the term over-indebtedness. In domestic academic literature it was already known to the academics that there is an inadequate semantic content of terms liquidity and solvency. The first distinguished study of the term solvency has been recently published (for more details please see the work of Pavlović V., Milačić S., *Neujednačen semantički sadržaj termina solventnost – izvorište i posledice*, *Zbornik Matice srpske za društvene nauke*, 64 (144), 2013, 451–466). The semantic analysis of the term liquidity has not yet been a part of a studious academic analysis because many of the authors find this problem already solved. In the paper written by Pavlović and Milačić (2013) the inadequate semantic meaning of the term over-indebtedness was indicated. The above mentioned article is the only one published in domestic literature where the economists try to evaluate the semantic content of accounting terms.

Semantic and pragmatic qualities of a good term are: conceptual adequacy, uniformity, precision, and domicile (Klajn, Brborić, 2007. According to: Vuletić, 2014: 196). Uniformity is perhaps the most important feature of scientific and technical terms (Kostić, 2008 According to: Pavlović, Milačić, 2013: 453). Clarity and unambiguity, i.e. uniformity and precision are of special importance for the terms which form a part of the professional register of commercial law.

Terminological problems arise from a variety of causes. Some are caused by the adherence to the “old” meaning of certain terms in national legal regulations, professional regulation and scientific literature even after the adoption of a new semantic content of these terms, in harmony with the international legal and professional regulation. The term “revaluation” is a typical example of the stated problem. Another common cause is an inadequate translation of English terms, their “Serbianisation”, or unreasonable borrowing of their original form (for more details, see in: Vuletić, 2014). The third kind of the terminological problem that is related to the use of accounting terms is the attribution of former meanings to certain terms whose meaning has now been revised. The above-mentioned problem is known in literature as the “problem of old and new science” (Pavlović, Milačić, 2013: 452).

Accounting terms are indispensable in various legal texts. In addition to the general “need for precise formulation of legal regulations themselves and the necessity of an unambiguous, precise, and, if possible, generally accepted or, at least, understandable corpora of terms” (Vuletić, 2014: 193), the necessity of attributing the same meaning to the terms present in legal regulations and professional regulation is particularly pronounced when legal provisions suggest the immediate application of the applicable international standards, as is the case in Serbia.

Harmonisation of the semantic content of these terms in legal texts and professional regulation with their meaning in university financial textbooks is also of great importance, not only because science and profession, by nature, incline towards accuracy, or because an unequal meaning of the term can lead to confusion and ambiguity, but also due to the fact that the unequal semantic content of these terms is usually disguised, and that business people are in most cases not even aware that the legislator attaches different semantic content to these terms, in relation to that which they have adopted.

The analysis of domestic literature is made by choosing haphazardly distinguished university textbooks such as: Vunjak, 1994; Žarkić Joksimović, 1995; Knežević, 2008; Krasulja Ivanišević, 2003; Malinić, Milićević, Stevanović, 2015; Pavlović, 2010; Ranković, 1999; Ranković, 2006; Rodić, 1991; Rodić, Vukelić, Andrić, 2011; Škarić Jovanović, Spasić 2014. Following were chosen among foreign textbooks: Brigham, Houston, 2000; Brigham, Gaspenski, 1997; Brealey, Myers, 2003; Elliott, Elliott, 2011; Garrison, Noreen, Brewer, 2003; Gibson, 2011; Fabozzi, Peterson, 2003; Harrison, Horngren, 1998; Horcher, 2005; Loader, 2002; Mladjenovic, 2006; Reuvid, 2005; Schall, Haley, 1991; Schoenebeck, Holtzman, 2013; Singh, 2007; Thomsett, 1998; Van Horne, Wachowicz, 1995; Vernimmen, Quiry, Le Fur, 2010; Weetman, 2004; Ward, 1996, Weston, Brigham, 1993 and Wood, Sangster, 2008.

There is no statement which is not covered by the above mentioned literature. As for the relevant professional regulations – the IFRS was chosen.

#### *THE SEMANTIC CONTENT OF THE TERM “LIQUIDITY”*

Nowadays, it is accepted in the economic and financial theory that the term “liquidity” means the ability to satisfy short term liabilities in a timely manner. The above mentioned definition was accepted in both professional regulations and laws. Although the opinion that liquidity presents the ability of a tangible asset to be converted into cash still prevails in professional academic literature. This definition of liquidity is more present in domestic than in Anglo-Saxon and Francophone professional literature. Academic authors developed various interpretations in highlighting the different semantic content of the term liquidity. Vunjak (1994:108) points out that this is the matter of the difference in interpretations of the term. Vast majority of domestic authors tried to overcome the problem of different semantic content of the term by contemplating that this term cannot be used in isolation in economic and financial literature, but it needs to have some adjective with it such as the liquidity of assets or liquidity of the company. The above mentioned interpretation was commonly used by academics. The experts in this field, in their expert literature, highlight that the twofold semantic content of the term liquidity is the consequence of

the changes in the meaning of the term itself, which is commonly known as the problem of the old and new terminology or the problem of the old and new science. The problem of the changes in the meaning of the term occurs due to the changes in the economic environment and development of science and profession (according to Kostić, 2008:129). The changes of term meanings are not unusual. As it was cited and illustrated by *Grandsaignes d'Hauterive* in the Dictionary of the Old French Language of the Middle Age and Renaissance (*Dictionnaire d'ancien français - Moyen Âge et Renaissance*), the shape of some the words changed to the extent that they are almost not recognizable, and it is also common that their meaning modified as well. (*Grandsaignes d'Hauterive*: Preface p. VII).

In this specific case, some authors consider that this is the evidence of the problem of the old and new terminology, so in the new terminology, liquidity is interpreted as the ability to meet current debts when due, while in the old terminology liquidity is the ability to convert the assets into cash. The above mentioned interpretation is not explicitly stated, but it is clearly pointed out by some foreign authors, and it is also rarely accepted by some domestic authors. Thoms states that the additional and new interpretations of the term liquidity correspond to the liabilities of the company, so the liquidity nowadays represents “the ability to meet the debts”. (Thoms, W., *Oekonomitat. Die dreidimensionale okonomische Problematik in inhrer Komplementaritat*, *Zeitschrift fur Betriebswirtschaft*, 9/1959; According to: Ranković, 1999: 27) In accordance with that, Ranković (1999:27) emphasized that in the earlier interpretations liquidity is defined as an ability of assets to be transformed into liquid assets. Accepting that opinion, Pavlović (2010:158) mentioned that the old interpretations of the term liquidity did not vanish, illustrating this point of view with the principle of the liquidity of assets which is still used for the preparation of balance sheet.

Using the etymological analysis of this term some authors supported the statement that, in its primary context liquidity, connotes the ability of non-monetary assets to convert to money, using the fact that liquidity has its root in the Latin word *liquidus* which means fluidity, or fluid shape. In this context, they consider that the term flow or fluidity, used in the interpretation of the term liquidity, should be understood as the ability of converting non-monetary assets into cash. This interpretation, in which liquidity is related to the word *liquidus*, which means fluidity, is present in many distinguished vocabularies of global use, such as *Le petit Robert* (2009: 1465) for example. This vocabulary states that the term liquidity is used in the encyclopaedia *Livre du Tresor*, written by Brunetto Latini in the year 1265, for the first time. Using the above mentioned work, we noticed that Brunetto Latini used this word only once as the term *liquide* in one recipe (*Livre I. Part. IV, Chap. CXXIX*. “Comment hom' doit faire cisternes”, p. 179(218).

Without any doubts we can conclude that the term liquidity has its origins in Latin language. The same word with the same root is used in many languages. In French language this term is *liquidité*, in English *liquidity*, in Italian *liquidità*, in Spanish *liquidez*, in German *Liquidität*, in Russian *ликвидность* and in Serbian *likvidnost* etc. It is not easy to find adequate scientific arguments that the term liquidity in economic, financial and legal context has its root in the meaning of liquid shape. The Larousse Etymological Dictionary (*Dictionnaire étymologique Larousse*, 2001:433) states that the word *liquider* is derived from the word *liquide*, and in economic context it is used for the first time in 1539. In the article 95 of the Law that went into effect in August 1539, the term *liquidé* is used in the context of liquidating the liabilities or meeting the debts. (Ordonnance du 25 août 1539 enregistrée au Parlement de Paris le 06-09-1539 sur le fait de la justice - Ordonnance de Villers-Cotterêts in: Isamber, Decrusy, Jourdan, 1824: 619).

It appears, as a possible explanation, that the term *liquidity*, in its economic, financial and legal meaning, is derived from the word *liquidation*. The term liquidation, according to the Grand Robert Dictionary of French language, is linked with the Italian word *liquidare* used for the first time in 1416. "In the legal science this term is used for activities that achieve liquidity, determine the final amount that needs to be satisfied and in the expanded context it means settling these amounts. On the other hand, in this dictionary we can find that Italian word *liquidare* from which the French word *liquider* is derived means "meeting the debts by selling (liquidating) some assets".

In the Grand Robert Dictionary of French language (Le grand Robert de la langue française, 2001: 847-849), it is stated that the term *liquidité* went into effect in French language in the financial context around the year 1500. This dictionary points out that this term was derived from the Italian word *liquido* and this one has its origins in the Latin word *liquiditas*, not *liquidus* what many academics considered. However, according to this dictionary, in the financial sense, this term means "something that is predetermined in the amount, in its value" and it is used for the receivables and payables or claims that certainly exist in the amount and which share (stake) is clearly determined. In the Small Robert Dictionary we can also find that in finance, the term *liquidité* means something that is exactly determined in its amount, in its value (Le petit Robert de la langue française, 2009: 1465). The term *liquidité*, defined in the above mentioned manner, is used by the French law makers in the Civil Law in the article 1291 (*Code civil*) that regulates the barter of the year 1804, for the first time. (According to: Le grand Robert de la langue française, 2001: 849).

According to the Grand Robert Dictionary, in contemporary French language, the term *liquidité* is interpreted as the ability of an investment to be realized (*Le grand Robert de la langue française*, 2001: 849), but the most

widely used meaning is “the amount that is free to be used”, but it is also interpreted as the realization (*liquidité*) of receivables. (Ibidem: 847). If we take a look at the plural form of this word (*liquidités*) it means currently available amount (*Le petit Robert de la langue française*, 2009: 1465), or liquid assets (*Le grand Robert de la langue française*, 2001: 849).

In the most famous French corporate finance textbook it is emphasized that the term liquidity has a twofold meaning: the economic and financial. In the economic meaning, the term *liquidités* means the amount of cash readily available, while in the financial context this term is interpreted in two different ways, in the context of financial markets such as the liquidity of markets and financial instruments and in the corporate finance where the same term is used to denote the ability to meet debts in a continuity of business operations (Vernimmen, Query, Le Fur, 2010:8). Vernimmen's statement is not usual because the term liquidity is not defined as an independent term when it is used as an inscription with financial markets or financial instruments. On the other hand, it is worth mentioning that in this book Vernimmen, Query and Le Fur did not mention the interpretation in which it means the ability of assets to be converted into cash when defining the term liquidity.

The term liquidity is taken from English language when it is used as an inscription in the syntagm *liquidity of the markets* and *liquidity of financial instruments*, because the terminology of financial markets was developed by the Anglo-Saxons. These phrases are used in Serbian language and in many other languages in the world as well. It stems from Vernimmen's, Query's and Le Fur's statements that the term liquidity has different meanings in different domains. It is currently recognized that there are certain differences between the languages used by various professionals and that these language phrases could be extremely divergent. The consequence of the above mentioned is the ability to research English language from the standpoint of different professions which led to the development of English for Vocational Purposes. “English for Vocational Purposes” studies specific terminology which makes communication between professionals in the same area possible (Stanojević, 2010: 480). It is a commonly known fact that English in a legal context (English for Legal Purposes) is very different than English in an economic context (English for Business Purposes) in the sense of the semantic content and the use of language vocabulary (Stanojević, 2010: 480–481). However, we cannot support the statement that the term liquidity used as an inscription with the financial instruments and financial markets has a new specific meaning. It seems that the term liquidity was derived from the semantic content of the word (*liquidité*) used in France by the law makers in the first half of the 16th century. This term was used for the receivables or payables which certainly exist and amount of settlement exactly determined. A financial instrument which is not liquid is not determined in its value, because the

market value of that instrument does not denote the value that will be derived from the realization or the value that will be derived from the purchase transaction. It appears that the word liquidity used in its contemporary context means the ability of a quick realization of investment or venture. Using the term liquidity in the financial markets context comes with no surprise because it can be found in literature that the English language of legal science and profession was formed under the influence of Latin and French language. (According to: Stanojević, 2010: 484)<sup>1</sup> Due to the above mentioned, Latin and French languages are of primary importance for the semantic analysis of the term liquidity, as well as for the analysis of other legal terms.

From the facts presented above, it can be concluded that there are no arguments in support of the statement that the term liquidity according to the old terminology could be used as the ability of assets to be transferred into cash, and that it extends to the definition of meeting current debts of a company. It seems more likely to conclude that the term liquidity is derived from the term liquidation, which means liquidating the liabilities, and liabilities can be liquidated by selling or liquidating assets. If a company liquidates its assets it can meet its debts. By evaluating how close or distant from cash the subject asset is, the question is focused on the ability of the company to satisfy its liabilities. This is used to evaluate the company's liquidity. We can hardly find any argument in supporting the opinion that liquidity means how close or distant some assets are from cash. In fact, we are talking about a distance of some assets from cash (*liquidités*). The analysis of that distance by taking into consideration current liabilities is the instrument for evaluating the liquidity. The main purpose of evaluating the liquidity of a company in this way is the ability to measure whether the company is able to settle its current debts. That is why the contemporary legislation and professional regulations use the term liquidity, exclusively in the sense of meeting the current liabilities. There is no logic in defining the liquidity as a measure of how distant an asset is from its cash position and this is more than obvious when we look at the instruments used for the evaluation of liquidity. Namely, liquidity is evaluated by taking into consideration current assets, i.e. receivables, cash

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<sup>1</sup> The predominant influence on the development of English Language for Legal Purposes was due to William the Duke of Normandy who conquered England in 1066. The new elite used French language. French was also used in legal texts. Almost all written legal texts were in Latin or French many centuries after the invasion of Normans. French language was known as Anglo French (Stanojević, 2010: 484). Normans wrote their documents in Latin first, but Latin was never seen as the language of the law. This was due to the fact that only few educated people knew Latin. That is why French language was developed as the language used in the court of law. The usage of Latin and French languages in the legal context ended with the decision of the Parliament in 1731 (Stanojević, 2010: 484).



and cash equivalents and current liabilities. From the previously presented, we can conclude that there is no logic in defining the liquidity as the ability of an asset to be transferred into cash and using current ratio to measure it. If it is defined as the ability to transfer assets into cash, than it will be measured by the turnover or efficiency ratios. There is a lot of sense in using the term liquidity only as an inscription with the financial instruments and not with other assets.

The conclusion can be derived from the previously mentioned statement that the term liquidity used as an inscription with the financial instruments or financial markets should not be mixed up with the common meaning of the word liquidity as the ability to settle current obligations in a timely manner. Denoting liquidity as the ability to meet the current debts when they come due is widely accepted in professional and legal regulations and laws. The definition of the liquidity presented in the Framework for the Preparation and Presentation of Financial Statements states that the “liquidity refers to the adequacy of cash, in the near future, and taking into consideration the financial liabilities in this period of time” (Framework IFRS, paragraph 16, p. 73). This is just one of the versions of the above mentioned definition.

In legal texts, liquidity is mentioned in the Company Law (2011), the Law on Accounting (2013), the Capital Market Law (2011), the Law on Payment Transactions (2011), the Law on Bankruptcy and Liquidation of Banks and Insurance Companies (2010), the Law on Banks (2010), the Law on the Development Fund of the Republic of Serbia (2012), the Law on the Development Fund of AP Vojvodina (2012), the Insurance Law (2009) and the Law on Takeover of Assets and Liabilities of Certain Banks to Preserve the Stability of the Financial System of the Republic of Serbia (2012). In addition, certain legal texts define liquidity, while other texts use this term, but do not define it. The Law on Accounting (Article 29), the Law on Payment Transactions (Articles 39 and 54), the Company Law (Article 416), and the Law on Bankruptcy and Liquidation of Banks and Insurance Companies (Article 2) mention liquidity but do not define it. That is the case also with certain bylaws (for example, in the National bank of Serbia’s Decision on the Method for Evaluation of the Balance Sheet and Off Balance Sheet Positions of Insurance Companies, 2005). It is interesting that the Law on Takeover of Assets and Liabilities of Certain Banks to Preserve the Stability of the Financial System of the Republic of Serbia introduces a new term, unknown in other legislative texts – risky liquidity (Article 13), which is also not defined.

Article 191 of the Capital Market Law defines illiquidity risk as “the inability of the company to meet its due liabilities”, while Article 197 defines liquidity as the “ability of the company to meet its due financial obligations in a timely manner”, which is a more precise definition since it highlights the attribute of timeliness. However, both definitions leave room for potential

confusion of the term liquidity with the term solvency. The Law on Banks (Article 30) defines liquidity risk as “the risk of occurrence of negative effects on the financial result and equity due to the inability of the bank to meet its due liabilities”, which is one of the fairly inarticulate and even not quite exact definitions. Specifically, if an entity fails to fulfil its due liabilities in a timely manner, at that moment it is undoubtedly insolvent, irrespective of whether it will have negative effects on the result and equity and whether the effects on the result are negligible or non-negligible. Therefore, it appears that illiquidity is associated with the effects of the current inability to pay on the result or equity. In addition, illiquidity of banks, as a rule, has serious consequences for the trust, and therefore, the performance of the bank. However, illiquidity, i.e. liquidity, as universal terms, should not be defined in the context of the specifics of individual activities. In addition, the above mentioned definition leaves room for inadequate delimitation of the terms liquidity and solvency. However, Article 30 gives precise definition of liquidity – “The bank manages its assets and liabilities in a way that enables it at all times to meet its due liabilities (liquidity) and to permanently fulfil all its liabilities (solvency)”. The Law on the Development Fund of the Republic of Serbia (Article 12) and the Law on the Development Fund of AP Vojvodina (Article 12) define liquidity in the same way. However, such a definition, although not uncommon in our area, still does not clarify the issue of liquidity and solvency adequately. Specifically, the ability to meet due liabilities at any time (it can be observed that the possessive pronoun “its” is unnecessary, since it is quite logical that the entity will not settle others’ liabilities) is no different than the ability of the permanent settlement of liabilities. As already noted, liquidity refers to the timely settlement of current liabilities, which the above definition has not clearly indicated.

It is noted that the Law on Bankruptcy (2009) does not mention the term liquidity, where it certainly should be used and defined, since the legislator uses it in other legal texts, and that illiquidity that lasts longer than the legally prescribed time limit is stated as one of the bankruptcy reasons. Instead of the term illiquidity, the phrases *threatening inability to pay* and *permanent inability to pay* (Article 11) are introduced. If, however, the legislator takes the stand that the phrases *threatening inability to pay* and *permanent inability to pay* are more adequate or more precise terms than the term illiquidity, which could be defended, the question remains why other legal texts opt for the use of the terms liquidity and illiquidity.

As there is no misunderstanding among financial analysts in defining liquidity, the methodology for the assessment of liquidity is generally accepted. Liquidity is measured by using liquidity ratios (coefficients) (current liquidity ratio, acid-test ratio, and cash flow liquidity ratio), cash flow analysis, and using the net working capital fund.

*THE SEMANTIC CONTENT OF THE TERM SOLVENCY*

The term solvency is primarily a legal term, since insolvency is the reason for initiation of a company's bankruptcy procedure. Legislative Guide on Insolvency Law (2005: 6), issued by the United Nations Commission on International Trade Law (UNCITRAL), defines insolvency as a situation when a debtor is generally unable to pay its debts as they mature or when its liabilities exceed the value of its assets. Article 123 of the British Insolvency Act (1986) defines insolvency in the same way. The above mentioned definition of insolvency is in full harmony with the definition of solvency provided by the International Accounting Standards Board (IASB), which reads: "Solvency refers to the availability of cash over the longer term to meet financial commitments as they fall due" (IFRS Framework, Paragraph 16:73. According to: Pavlović, Milačić, 2013: 455), Therefore, solvency implies timely settlement of liabilities, where timeliness should be understood in the context of the statutory deadline for the payment of liabilities upon which the company is proclaimed insolvent. At the same time, the International Bankruptcy Law does not recognise uniformity in the length of the maturity of payment obligations (Ibidem).

However, national scientific literature gives a different semantic content to the term solvency, which primarily refers to financial literature. Unlike foreign authors dealing with finance, who use this term rarely, the term solvency is almost unavoidable in national literature. In addition, "the dominant views are the ones based on which solvency means: a) the ability to settle long-term liabilities in a timely manner; b) the ability to settle all liabilities in a timely manner; and c) the situation in which the value of assets exceeds its liabilities" (Pavlović, Milačić, 2013: 463). The problem of the non-uniform semantic content of the term solvent has far-reaching consequences, since this term is frequently used, not only in professional and scientific texts, but also in almost all legal regulations and bylaws, where there is most often no awareness of the attribution of a different semantic content to this term (Pavlović, Milačić, 2013: 453).

Exactly like with the concept of liquidity, legal regulations and bylaws mention the term solvency without defining it, such is the case in the Insurance Law and the Law on Payment Transactions, or define it, leaving room for different interpretations of the definition. It is the case in the Capital Market Law, the Law on Banks, the Law on the Development Fund of the Republic of Serbia, and the Law on the Development Fund of AP Vojvodina (Pavlović, Milačić, 2013: 453). It is also noted that the term solvency is not mentioned in legal texts where its use is expected. This is the case in particular with the Law on Bankruptcy and Liquidation of Banks and Insurance Companies (2010) and the Law on Bankruptcy, in which this term is mentioned only in the part dealing with the provisions on international bankruptcy, without defining the term itself.

As shown already, the Capital Market Law (Article 197) and the Law on Banks (Article 30) define solvency as “the company’s permanent ability to meet all its financial obligations”. The above mentioned legal definition still leaves a number of dilemmas in determining the exact meaning of this term. The most important among them is the question as to whether the timeliness in the settlement of obligations is assumed or not (Pavlović, Milačić, 2013: 458).

In contrast to the assessment and management of liquidity, where the universally accepted methodology is established, when it comes to the assessment of solvency, literature offers different methodologies. While contemporary literature claims that the assessment of solvency is based primarily on the companies’ ability to generate income, which is in accordance with the correct semantic content of this term, one can still find a view that solvency is assessed through indebtedness ratio (Malinić, Milićević, Stevanović, 2015; Pavlović, Milačić, 2013; and Pavlović, 2010).

#### *THE SEMANTIC CONTENT OF THE TERM “OVER-INDEBTEDNESS”*

Unlike solvency, the term over-indebtedness is uniquely defined in literature. Over-indebtedness means a condition in which the company’s assets are lower than the company’s liabilities. Over-indebtedness is defined in legal texts in the same way (Article 11 of the Law on Bankruptcy). However, regardless of the fact that over-indebtedness is defined both in national textbooks and legal texts in a unique manner, this term causes confusion among business people. The above mentioned does not come as a surprise when we take into consideration that the vast majority of authors do not define solvency according to its correct semantic content but they confuse solvency with over-indebtedness while the third term is not even mentioned, or if it is mentioned they choose not to define it. Although the term over-indebtedness is not mentioned in academic literature in the financial accounting domain, this term is used frequently in business and daily activities and no one has any doubt regarding the semantic content of this term.

However, it is certain that business people rarely see over-indebtedness as the situation in which the company’s assets do not cover the company’s liabilities, but most often they have in mind the situation in which a company has difficulties to properly service the instalment related to the obtained loans, where it is estimated that the causes of illiquidity are not temporary, and commercial banks are not ready to approve further loans. Obviously, many economists do not make a clear distinction between over-indebtedness, illiquidity, and insolvency. The probable reason why economists are often not familiar with the meaning of the term over-indebtedness is that this term is not commonly used in

economic literature (university textbooks), and, accordingly, is not defined. The exceptions are those textbooks dealing with special balance (Ranković, 2006; Škarić-Jovanović, Spasić, 2012) since the definition of this term is unavoidable in the part elaborating on the bankruptcy balance. However, only a small part of the students of economics and other business faculties listen to the mentioned subject.

Clarity and non-ambiguity of the term over-indebtedness do not imply the ease of its specification, as well. Specifically, the annual report drawn up on the basis of the applicable principles of proper bookkeeping and regulations of commercial law is not authoritative in determining the possible state of over-indebtedness, but the bankruptcy (status) balance drawn up on the basis of the sales value of the assets, without taking into account the components of the assets that have no commercial value. The problem of evaluating assets for the purposes of determining the financial position in the status balance is perhaps best reflected in Schmallenbach's remark that a liquidation receiver, while composing liquidation balance sheet, "is secretly laughing" (Schmallenbach, E., *Dynamisch Bilanz*, 6. Auflage, Gloeckner verlag, Leipzig 1933: 302. According to: Ranković, 1996: 266).

### *CONCLUSION*

From the above presented analysis of the semantic content of the terms liquidity and solvency used in professional financial accounting literature, legal texts and professional regulations we are able to conclude that there is much confusion regarding the semantic content. The inadequate semantic content of these terms is presented in professional literature, while in professional regulations these terms are adequately defined and demarked. In legal texts these terms are not precisely defined. It can be seen that many business people and managers use the term over-indebtedness in a different semantic context than the semantic meaning given to it in legal texts and professional literature. It is worth mentioning that the term over-indebtedness is correctly defined in legal texts and professional academic literature. We also pointed out that the term over-indebtedness is by some authors mixed with the term solvency.

It is of a great importance to coordinate the semantic content of the accounting terms used in textbooks with the legal texts and professional regulations. We also emphasized the necessity to define the term over-indebtedness adequately in academic literature because this term is widely and daily used in the financial accounting context. There is a need to semantically adequately define the term over-indebtedness in academic literature and make this definition in line with the legal texts. The term over-indebtedness is not used in professional regulations and this makes the need for an adequate definition of this term even more important. The

issue is pointed out when the Law accepts a term it has used consistently in all legal texts. The same term is then uniquely defined in all legal texts and bylaws.

Therefore, if the legislator has already accepted the terms solvency and liquidity, it is necessary to use these terms in the Law on Bankruptcy, since bankruptcy procedure is opened in relation to an insolvent entity, and illiquidity for a longer period than the prescribed period leads to insolvency.

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## АНАЛИЗА УСАГЛАШЕНОСТИ СЕМАНТИЧКОГ САДРЖАЈА ОДАБРАНИХ ФИНАНСИЈСКО РАЧУНОВОДСТВЕНИХ ТЕРМИНА У ЗАКОНСКИМ ТЕКСТОВИМА, ПРОФЕСИОНАЛНОЈ РЕГУЛАТИВИ И СТРУЧНОЈ ЛИТЕРАТУРИ

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### Резиме

Увидом у професионалну регулативу, законске текстове и стручну литературу из области пословних финансија и рачуноводства, запажа се, да се важним финансијско рачуноводственим терминима придаје различити семантички садржај. У раду се истражује исправан семантички садржај термина „ликвидност“, „солвентност“ и „презадуженост“ и анализира да ли се поменути термини на адекватан начин дефинишу у стручној литератури и законској регулативи.

Професионална регулатива и стручна литература заузимају јединствени став да ликвидност означава способност предузећа да измири текуће обавезе у року доспећа. Ипак и поимање ликвидности, као способности имовине да се претвори у новац, и даље егзистира. Проблем двојаког семантичког садржаја термина „ликвидност“ се у стручној литератури углавном посматра као проблем терминологије старе и нове науке или кроз приступ да ликвидност не представља самосталан појам, већ одредницу која се користи уз предузеће и имовину, те сагласно томе разликују ликвидност предузећа и ликвидност имовине.

Бројни законски текстови помињу термин ликвидност, при чему је овај појам у појединим законским текстовима дефинисан док у другим није. При томе, ни једна дефиниција дата у законским текстовима није у потпуности усаглашена са исправним семантичким садржајем овог термина. Такође се запажа да се термин ликвидност не помиње у Закону о стечају, где је нужно морао бити коришћен будући да у законском року непреброђена неликвидност представља један од стечајних разлога.

Инсолвентност је стање у коме дужник генерално посматрано није у могућности да благовремено измири обавезе или као стање у којем обавезе превазилазе вредност имовине. Иако је термин „инсолвентност“, односно „солвентност“ појам из стечајног права и као такав сасвим јасан, у домаћим законској регулативи овај термин је у употреби у више законских текстова, сем у Закону о стечају, у коме је нужно требао бити коришћен. Упркос јасном и недвосмисленом семантичком садржају овог термина у иностраној правној и професионалној регулативи, у домаћој стручној литератури влада конфузија у вези значења овог термина.

Презадуженост означава стање у којем обавезе превазилазе вредност имовине. Иако је презадуженост исправно и јасно дефинисана Законом о стечају, међу пословним људима присутна је видна конфузија по питању његовог семантичког садржаја. Неадекватно тумачење овог термина који се учестало користи у свакодневном говору и неадекватно разграничавање са појмом „инсолвентност“ вероватно је последица тога што се овај термин у домаћој стручној литератури по правилу не користи, док је појам „инсолвентност“ често неадекватно дефинисан као „презадуженост“.

У раду се акценат ставља на исправно семантичко значење наведених појмова, као један од основних предуслова, како њиховог разумевања од стране различитих учесника у привредном животу, тако и важност усаглашавања значења ових термина у свим текстовима у којима се употребљавају.