BASIC ACCOUNTING TERMS

In Business various accounting terms are used. It is necessary to understand these terms as their part of the standard accounting terminology:-

1. Business Transaction: The term Business Transaction means a financial transaction or economic event entered into two parties that initiates the accounting process of recording it in the books of accounts of an enterprise. It is expressed in terms of money which brings a change in the financial position of an enterprise.

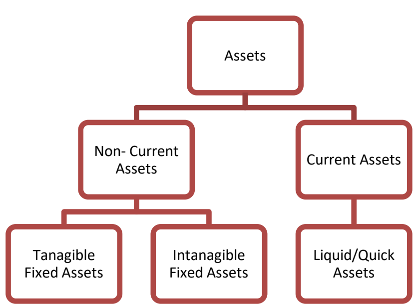
2. Account: it is a record of transactions (cash and credit) under a particular head of account (say salaries, telephone expenses, electricity expenses etc…) or a particular head (say Asset, Liabilities etc…)

3. Capital: Capital is the amount introduced in a Business concern by the Owner (in case of sole proprietorship) or by partners (in case of partnership business). It may be in the form of money or assets having a monitory value.
In the case of companies Owners of business are known as shareholders and they contribute their capital in company.
It is a liability because under 'Business Entity Concept' or separate legal entity concept. Both Owner's and Business have separate legal entity. Transactions are recorded in the books of accounts from the point of view of Business. Capital is also known as Owner's Equity or Net Worth. It can be expressed as: **Capital= Assets-Liabilities.**

4. Drawings: Drawings is that amount or goods which are withdrawn by the Proprietor for Domestic use, Household use or Personal use. It reduces the capital of the owners and it is debited to drawings account by the Proprietor.

5. Assets: All those resources owned by a Business concern which are used in Business Operation or assist to operate the business and to earn the profit are known as assets. In other words anything which enables the firm to get economic benefit in the future is an Asset. Examples of assets are Land and Buildings, Plant and Machinery, Furniture, Stock, Debtor, Cash in Hand, Cash at Bank, Trademarks, Copyrights, Patent Right, Goodwill etc...

Assets may be classified into the following categories:



(i) Non- Current Assets : Non Current Assets are those assets which are held by the Boniness concern for use in the Business for long period of time and are not with the purpose to resell but are held either as Investment or to facilitate Business operations. Fixed assets, Non-Current Investments, Long term loans and Advances are the examples of Non-Current asset.

Fixed Assets are further classified into two types:

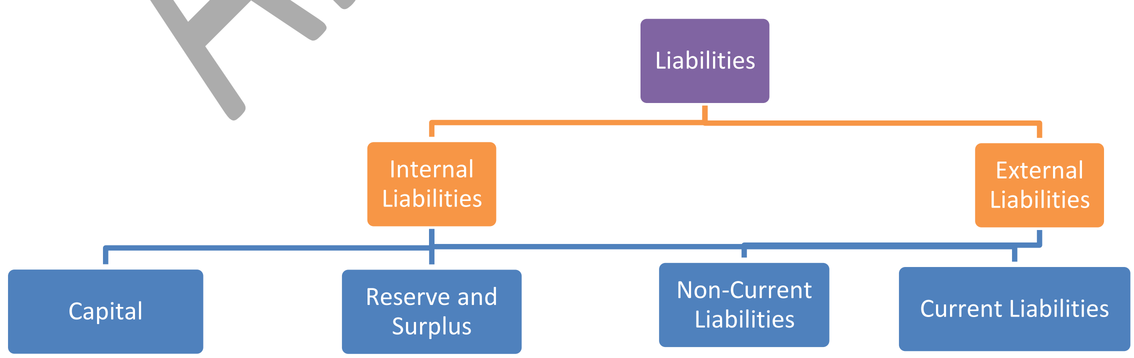
- Tangible Fixed Asset: Tangible fixed assets are those assets which can be seen, touched, purchased and sold. It means which have physical existence i.e. Land, Building, Machinery, Computer, Furniture etc…
- Intangible Fixed Asset: Intangible fixed assets are those assets which do not have own physical existence means it cannot be seen, touched only be felt. These can be sold but not alone but together with entire business. Examples of intangible assets are: Goodwill, Patents, Copyright, Computer Software, Design etc…

(ii) Current Assets: Current assets are those assets which are held by an enterprise with the purpose of converting them into cash within a short period of time, i.e. One year. Goods are purchased with a purpose to resell and to earn profit. Ex.- Debtor, Bills Receivable, cash at Bank, Cash in Hand etc..

Liquid Assets are those current assets which are either in the form of cash or which can be converted into cash quickly. All Current assets are Liquid assets excepting Stock and Prepaid Expenses.

6. Liabilities: Liabilities mean amount Owed (payable) by the business concern at sometime in future Liabilities towards the Owner of the business is termed as internal liabilities, i.e. Capital. On the other hand, liabilities towards the outsiders is termed as External liabilities. This can be expressed as: **Liabilities = Assets-Capital**.

Loan from bank, Creditors, Bills Payables, Bank Overdraft, Outstanding Salaries are the examples of liabilities.



7. Expenses : Amount spent on the cost of goods sold and service used up in the process of earning revenue. An expense also refers to an expenditure in return for which some benefits is received and it reduce Capital.

8. Revenue : Revenue is the total sum of cash-in-flow in the Business. It also means the earning of business. Revenue increases Capital.

9. Income : The difference between Revenue and Expenses is called Income.

10. Expenditure : Money spent or liabilities incurred for acquiring Goods or Services or Assets is called Expenditure.

Expenditure may be classified in three categories:

(i) Capital Expenditure : All those Expenditures which are made on buying fixed assets or addinfg to their value are called capital expenditures. Ex.. Purchase of Land, Building, Computers…etc.

(ii) Revenue Expenditure : All those expenditures which are repeated within a certain period or on a certain date within a year. We can say that Expenditures incurred to carrying on the normal course of Business. Ex. Purchase of Goods and Services, Salaries, Wages…et.

(iii) Deferred Revenue Expenditure : Those Expenditure whose usefullness extends over more than one accounting period i.e. large amount of money spent on Advertisement for launching a new product….etc..

11. Debtors : A Debtor is a person who owes money or debts to the Business. **Trade Debtors refer to those persons, firms or companies who owe money or debts to the firm.**

12. Creditors : A Creditor is a person to whom the business owes money. **Trade Creditors refer to those persons or firms to whom the business entity owe money.**

13. Goods : All those things merchendise, commodities, products, articles which are maily traded in the business; Thus goods refers to those things which are purchased for reselling at a certain rate of profits.

Goods are classified into five categories from recording point of view :

(i) *Purchased Goods:* (Purchases A/c)

(ii) *Sold Goods :* (Sales A/c)

(iii) *Purchases Returned Goods/ Returns Outwards :* (P.R. A/c | R.O. A/c)

(iv) *Sales Returned Goods/ Returns Inward* : (S.R. A/c | R.I. A/c)

(v) *Unsold Goods* : (Stock A/c)

14. Stock/Inventory : The value of Unsold Goods, Spares and other Items lying in the business on any given date are called stock in hand.

Stock maybe classified into two groups:

(i) *Opening Stock :* Unsold Goods at the beginning of the accounting period
(ii) *Closing Stock :* Unsold goods at the end of the Accounting period.

Inventory : Tanagible property held for sale in the ordinary course of business are known as Inventory.
Live Stock : Animals, Horses etc…. used in trade are called Live Stock.
Dead Stock : Assets which are contineously in trade circulation are Dead Stock. i.e. furniture, Machinery . etc..

15. Profit : Profit is a general term for the access of revenue over related cost.

16. Gain : Profit earned from non-operating activities is known as Gain.

17. Voucher : Voucher is a written documentry evidence of business transactions on its basis transaction are recorded in the books of accounts.

18. Discount : Discount is a concession or deduction in the price of Goods or Services given by the Seller to the Buyer.

Discount may be of the following types:

(i) Trade Discount

(ii) Cash Discount

(iii) Commodity Discount

(iv) Special Discount

(v) Seassional Discount

(vi) Ocassional Discount

19. Trades Receivable/Account Receivable : The amount owing to a business from customers or debtors for invoiced amount are called Trade Receivables.

Trade Receivable = Bills Receivable + Trade Creditors

20. Trades Payable/Account payable : The amount owed by a business to suppliers for goods and services. It is totalsum of trade creditors and bills payables.

21. Bad Debts : A debt which is irrecoverable from debtors or customers is called Bad debts.

22. Debit : Left Hand Side (L.H.S.) of an account is known as Debit side.

23. Credit : Right Hand Side (R.H.S.) of an account is known as Credit side.