BASIC TERMS USED IN ACCOUNTANCY:

1. **Capital:** It is the amount invested by the proprietor in business enterprises. It may be in the form of money or assets having a monetary value. It is a liability of the business towards the proprietor or partner which increases with further investment made into the business and the amount of profit earned. It is expressed as :
   Capital=Assets-liabilities
2. **Business Transaction:** It means a financial traction or events entered into by two parties and is recorded in the books of accounts. It is the financial event expressed in terms of money which brings a change in the financial position of an enterprise.
3. **Drawings:** Any cash or value of goods withdrawn by the owners for personal use made out of business funds is called drawings. Goods so taken by the proprietor or partner are valued at purchase cost. It reduces the capital of the owner.
4. **Assets:** An assets is a property or legal rights owned by a business to which money value can be attached. In other words , anything which will enable the firm to get cash or an economic benefit in future, is an assets.
   Two Types
   - **Tangible Assets:** Anything which has shape and values is called Tangible Assets, **E.g.** Cash in hand or bank, Machinery, Land and building, furniture and stocks.
   - **Intangible Assets:** Anything which has value but not shape that means you may not able to see it but has value like goodwill, Patent , Trademarks, Prepaid Expenses.
5. **Fixed Assets:** Fixed assets refer to those assets which are held for continued use in the business for the purpose of producing goods or service and are not meant for resale.
   E.g. Land and building, Motor vehicle, Furniture's etc.
6. **Fictitious Assets:** Those assets which are neither tangible assets nor intangible assets. They are losses not written off in the year in which they are incurred but more than one accounting period. Eg. Deferred Revenue Expenditure.
7. **Current Assets:** Current assets are those assets which are meant for sale or which the management would want to convert into cash within one year.
   E.g. Cash in hand, Cash at bank, Bills Receivable, Short term investments, Debtors, Stock, and Prepaid Expenses.
8. **Liabilities:** It refers to the amount which the firm owes (payable) to outsiders. **E.g.** When a firm purchases goods on credit from A ,the amount owing to A is a liability likewise when a bank account is overdrawn the amount owing to bank (i.e. Bank Overdraft) is knows as liability, like wise bills payable ,creditors ,unpaid wages. Etc.
9. **Current Liabilities:** Current liabilities refer to those liabilities which are to be paid in near future (within one year) for e.g. Bank Overdraft, Bills Payables, Creditors, Outstanding Expenses and Short Term Loans. Etc.
10. **Long Term Liabilities or Fixed Liabilities:** These refer to those liabilities which fall due for payment in a relatively long period. (More than 1 year).E.g. Long term loans & Debentures.
11. **Revenue:** Revenue is the amount earned as a result of sale of goods or rendering of services. It is a sum of cash and credit sales. It also includes receipts of rent, commission, dividends, interest etc.

12. **Expenditure:** Any disbursement of cash or transfer of property or incurring a liability for the sale purpose of acquiring assets, goods or service is called expenditure. It means that any type of payment for the receipt of a benefit is termed as expenditure.
    Two Types:
    - Capital Expenditure: Any expenditure which is incurred in acquiring or increasing the value of a fixed asset is termed as Capital expenditure. As such, the amount spent on the purchase or erection of Building, Plant, furniture, etc. is capital expenditure. Such expenditure yields benefits over a long period and hence written in Assets.
    - Revenue Expenditure: Any expenditure, the full benefit of which is received during one accounting period is termed as revenue expenditure. As such all the revenue expenditure are debited to Trading & Profit and loss Account .Such expenditure does not result in an increase in the earning capacity of the business but only helps in maintaining the existing earning capacity.
    - Deferred Revenue Expenditure: It is a revenue expenditure in nature but is written off(charged) in more than one accounting year. For example , large advertising expenditure that will give benefit for more than one accounting period.
13. **Wasting Assets:** Wasting assets are those assets which are consumed through being worked or used, such as mines. As soon as all the minerals have been extracted the mine becomes valueless. Wasting assets also include assets which get exhausted with the lapse of time, such as Patents, Trademarks, and Leasehold Properties etc.
14. **Prepaid Expenses:** Expense that has been paid in advance and the benefit of which will be available in the following year or years. E.g: Insurance premium
15. **Outstanding Expenses:** It is an expense that has been incurred but has not been paid.
16. **Expenses:** Expenses is the cost incurred in producing and selling the goods and service. In other words incurred to generate revenue. Following are included in the term Expenses:-
    - Cost of goods sold.
    - Amount paid for Rent, commission, Salary, Advertisement, etc.
    - Decline in the value of an asset caused by the use of such asset for business purpose or depreciation is also an expense.
17. **Loss:** The term conveys two different meaning. First it conveys the result of the business for a period when expenses exceed the revenue. For example if revenue are Rs 1,00,000 and expenses are Rs 1,20,000 the loss will be Rs 20,000.Second refers to some fact or activity against which firm receives no benefit. For example, loss due to fire, theft, accident etc.
18. **Income or profit:** It is the profit earned during the accounting period**. '**Income 'is different from 'Revenue'. As discussed earlier, amount received from sale of goods is called 'Revenue' and the cost of goods sold is called 'Expenses' .Surplus of revenue over expenses is called 'Income'. For example the goods costing Rs 4,00,000 are sold for Rs 5,00,000.The sale amounting to Rs 5,00,000 is the revenue, the cost amounting to Rs.4,00,000 is expenses and the difference between the two i.e. Rs 1,,00,000 is the income. It can be expressed as
    INCOME=REVENUE-EXPENSES
19. **Gain:** It is a monetary benefit, profit or advantage, resulting from a business transaction or groups of transaction. For example, if a building costing Rs 5, 00,000 is sold for Rs 6, 00, 000, Rs 1, 00,000 will be the gain on sale of building.
20. **Purchase Return:** When purchased goods are returned to the suppliers these are known as purchase return. Also known as **'Return Outward'**

21. **Sales Return:** Some customer might return the goods sold to them**.** These are termed as sales return **or 'Return Inward'**
22. **Purchase:** The term purchase is used only for the purchase of 'Goods' in which the business deals. In case of a manufacturing concern'goods'means acquiring of raw material for the purpose of conversion into finished product and then sale. In case of trading concern 'goods' are those things which are purchased for resale.. For example, if a cloth dealer purchase cloth for sale, the cloth so purchased will be called 'goods'. However, if the same cloth dealer purchases furniture for seating the customer ,such furniture will not be termed as goods, but a separate account named as 'Furniture Account' will be opened for it. It includes both cash purchases and credit purchases of goods.
23. **Sales:** The term 'sales' is used only for the sales of those goods which are purchased for resale purposes. The term 'sales' is never used for the sale of assets. For example, if a cloth dealer sells cloth, it will be termed as sales, but if the same cloth dealer sells old furniture or a typewriter, it will not be termed as sales. The term sales include both Cash and Credit sales.
24. **Stock:** The term 'stock includes the value of those goods which are lying unsold at the end of accounting period. The stock may be of two types:
    - **Opening Stock**: It means value of goods lying unsold at the beginning of the accounting period
    - **Closing Stock:** It means value of goods which are lying unsold at the end of accounting period.

Types of Stock :

1. **Stock of Raw Material: It** includes stock of raw materials purchased for using them in the products manufactured but still lying unused. For example the value of cotton in case of cloth mills is the stock of raw material.
2. **Stock of Work –in –Progress:** It is also termed as stock of partly finished goods. It means goods in semi-finished form. Such goods need further processing for converting into finished goods.
3. **Stock of Finished goods:** It includes the stock of those goods which have been completely processed and are ready for sale but are lying unsold at the end of the accounting period. In case of cloth mills the value of finished cloth will be the value of finished goods.

   Calculation of closing stock: To ascertain the value of closing stock, a complete list of the entire items in the godown together with their quantities is prepared .Also the separate lists should be prepared for raw materials, semi-finished goods and finished goods in the stores. Preparation of such list is called **'Stock taking'.**

   Care should be taken that the goods are not included in the list of stocks:

   1. Goods which have been sold but remain undelivered.
   2. Goods purchased and received but which have not been recorded in the purchase books.

Following goods should be included in the list of stocks:-

1. Goods sent to the customer on sale or return basis.

2. Goods sent to the agents for sale but remain lying with them as unsold. **It should always be kept in mind that stock is valued at cost price or market price whichever is less.**

25. **<u>Debtors:</u>** The term 'Debtors' represents those persons or firms **to whom** goods have been sold or service rendered on credit and payment has not been received from them. They still owe some amount to the business .for example ,if goods worth Rs 10,000 have been sold to Mohan on credit ,he will continue to remain the debtors of business so long as, he does not make full payment.
Or
Person who owe amount to the business are Debtors.
Or
Debtor is a person who owes money to business.

26. **<u>Creditors:</u>** The term 'Creditors' represents those persons or firms **from whom** goods have been purchased or service rendered on credit and payment has not been made to them. Some money is still owing to them .for example ,if goods worth Rs5000 are purchased from Govind on credit, he will continue to remain the creditor of the firm so long as, the full payment is not made to him.
Or
A person to whom a firm owes is a creditor.
Or
A party to whom the business owes money.

27. **<u>Receivables:</u>** Amount due from Debtors and Bills Receivable B/R is jointly termed as 'Receivables 'or Accounts Receivable'.

28. **<u>Payables:</u>** Amount due to Creditors and for Bills Payable (B/P) is jointly termed as 'Payable' or Accounts Payable'.

29. **<u>Cash Memo:</u>** Details regarding the items, quantity, rate and the total price is mention in the cash memo. When a trader sells goods for cash he gives cash memos and when he purchase goods for cash he receives cash memos.

30. **<u>Invoice and Bill:</u>** When a trader sells goods on credit, he prepares a **sale invoice** which contains the name of the party to whom goods are sold, the rate quantity and the total amount of sale. The original copy of the sale invoice is sent to the purchaser and its duplicate copy is kept for making records in our books of accounts.
Similarly, when a trader purchases goods on credit, he receives a **credit bill** from the supplier of goods. **We make an invoice on credit sale but receive a bill on credit purchase.**

31. **<u>Receipt:</u>** When a trader receives cash from a customer, he issues a receipt containing the date, amount and name of the customer. The original copy of the receipt is given to the customer and its duplicate copy is kept for making records in the books of account.

32. **<u>Debit note:</u>** When we return goods to a supplier**, we** prepare a debit note and send it to the suppliers with the returned goods. It's a document which indicates that supplier's account is being debited.

33. **<u>Credit note</u>**: When goods are received back from a customer a credit note is sent to him indicating that the customer account has been credited in our books. A duplicate copy of the credit note is retained for the record purpose.

34. **Pay-in-slip:** This is a form available from a bank and is used to deposit money in the bank. Each pay in slip has a counter foil which is returned to depositor duly stamped and signed by the cashier of the bank.
35. **Bad Debt:** It is the amount owed to the business that is written of because it has become irrecoverable. It is a loss for the business and is, thus, debited to profit and loss.
36. **Cheque:** A cheque is an order in writing drawn upon a bank to pay a specified sum to the bearer or the person named in it. Each cheque has a counterfoil remains with the account holder for future reference.
37. **Vouchers:** Vouchers is an evidence of a business transaction. E.g. Cash memo, Invoice or bill.
38. **Transaction:** A transaction is an agreement, communication, or movement carried out between a buyer and a seller to exchange an asset for .
39. **Contra Entry:** some transactions are recorded in three column cash book which relates to both cash & bank i.e. balance of one will decrease and other will increase due to such transactions. such transactions are entered on both sides of the cash book . such entries are known as Contra Entry.

40. **Marshaling:** Marshalling of balance sheet is to show assets and liabilities in specific order or arrangement. We can either show assets and liabilities in liquidity order or permanence order.

41. **Crossed Cheque:** Any check that is crossed with two parallel lines, either across the whole check or through the top left hand corner of the check. This symbol means that the check can only be deposited directly into a bank account and cannot be immediately cashed by a bank or any other credit institution.

42. **Accounts**: It is a summarised record of transaction relating to a particular head at one place. It records not only the amount of transaction but also their effects and direction.

43. **Fictitious Assets:** are those assets which are neither tangible assets nor intangible assets. They are losses not written off in the year in which they are incurred but in more than one accounting period.

44. **Non Current Assets:** Noncurrent assets are those assets which are held by a business from long term point of view. They are not held with the purpose to resell but are held either as investment or to facilitate business operation. E.g. Non-Current Investment.

45. **Non Current Liabilities:** It is that liability which is payable after a period of more than a year. E.g. Long term loans , debenture. etc.

46. **Current Liability:** It is that liability which is payable within 12 months from the end of the accounting period. E.g. Creditors, bills payable, short term loans.

47. **Receipts:** It is the amount received or receivable for selling assets, goods or services.

48. **Discount:** When customer are allowed a reduction in the prices of goods by the business, It is known as a Discount.

49. Trade Discount: Trade discount is the rebate allowed by the seller on the basis of sales, either quantity or value.

50. **Cash Discount:** Cash discount is the rebate allowed for timely payment of due amount.

51. Gross Profit: It is the difference between revenue from sales and /or services rendered over its direct cost.

52. Net Profit: Profit earned after allowing for all expenses. In case expenses are more than the revenue ,it is net loss.

53. Goods: Goods are the physical items of trade. It is a term that applies to all the items making up the sales or purchase of a business.

54. Proprietor: The person who makes the investment and bears all the risk associated with the business is called proprietor.

55. Depreciation: Depreciation is a fall in the value of an assets because of usage or with afflux of time or obsolescence or accident. It is an allocation of cost of fixed assets in each accounting year during its expected useful life.

56. Insolvent: Insolvent is a person or enterprise which is not in a position to pay its debts.

57. Balance sheet: It is a statement of the financial position of an individual or enterprise at a given date, which exhibits its assets ,liabilities ,capital, reserves and other account balances at their respective book value.

58. Entity: An Entity means an economic unit which performs economic activities. E.g. Reliance Industries, Bajaj Auto

59. **Opening Entry:** In the case of continuing business we are required to pass an entry in the journal for bringing in the new books all assets and liabilities as appearing in the books on the last day of the previous year. This entry is known as ‘opening entry’. Rule of passing opening entry is to debit each asset account; credit each liability account; excess of debits over credits represents capital balance. Thus if in a question capital balance is not given it can be ascertained as follows: Total debits – Total credits = Capital

60. **Account**: is a record in the general ledger that is used to collect and store debit and credit amounts. For example, a company will have a Cash account in which every transaction involving cash is recorded.

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