SUBJECT—ACCOUNTING

LECTURE 2

BY::

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Basic Terms in Accounting

1)Entity
Entity means a thing that has a definite individual existence.
Business entity means a specifically identifiable business enterprise.
An accounting system is always devised for a
specific business entity (also called accounting entity).

2)Transaction
A event involving some value between two or more entities. It can be a purchase of goods, receipt of money, payment to a creditor, incurring expenses, etc. It can be a cash transaction or a credit transaction.

*3)*Assets
Assets are economic resources of an enterprise that can be usefully expressed in monetary terms. Assets are items of value used by the business in its operations.
Assets can be broadly classified into two types: Fixed Assets and Current Assets.

Fixed Assets are assets held on a long-term basis, such as land, buildings,machinery, plant, furniture and fixtures. These assets are used for the normal operations of the business.

Current Assets are assets held on a short-term basis such as debtors(accounts receivable), bills receivable (notes receivable), stock
(inventory), temporary marketable securities, cash and bank balances.

4) Liabilities
Liabilities are obligations or debts that an enterprise has to pay at some time

in the future. They represent creditors' claims on the firm's assets. Both small and big businesses find it necessary to borrow money at one time or the other, and to purchase goods on credit., for example,RAM purchases goods
for Rs. 10,000 on credit for a month from Fast Food Products on March 25, 2020. If the balance sheet of RAM is prepared as at March 31, 2005,
Fast Food Products will be shown as creditors on the liabilities side of the balance sheet. If RAM takes a loan for a period of three years from
Delhi State Co-operative Bank, this will also be shown as a liability in the balance sheet of RAM. Liabilities are classified as long-term liabilities
and short-term liabilities (also known as short-term liabilities).

Long-term liabilities are those that are usually payable after a period of one year, for example, a term loan from a financial institution or debentures (bonds) issued by a company.
Short-term liabilities are obligations that are payable within a period of one
year, for example, creditors, bills payable, bank overdraft.

5)Capital

Amount invested by the owner in the firm is known as capital. It may be
brought in the form of cash or assets by the owner for the business entity
capital is an obligation and a claim on the assets of business. It is, therefore,shown as capital on the liabilities side of the balance sheet.

6)Sales

Sales are total revenues from goods or services sold or provided to customers.
Sales may be cash sales or credit sales.

7)Revenues

These are the amounts of the business earned by selling its products or providing services to customers, called sales revenue. Other items of revenuecommon to many businesses are: commission, interest, dividends, royalities,rent received, etc. Revenue is also called income.

8)Expenses

Costs incurred by a business in the process of earning revenue are known as expenses. Generally, expenses are measured by the cost of assets consumed or services used during an accounting period. The usual items of expenses are: depreciation, rent, wages, salaries, interest, cost of heater, light and water,telephone, etc.

9)Expenditure

Spending money or incurring a liability for some benefit, service or property received is called expenditure. Payment of rent, salary, purchase of goods,purchase of machinery, purchase of furniture, etc. are examples of expenditure.

If the benefit of expenditure is exhausted within a year, it is treated as an

expense (also called revenue expenditure). On the other hand, the benefit of an expenditure lasts for more than a year, it is treated as an asset (also called capital expenditure).

10)Profit

The excess of revenues of a period over its related expenses during an

accounting year profit. Profit increases the investment of the owners.

11)Gain

A profit that arises from events or transactions which are incidental to business such as sale of fixed assets, winning a court case, appreciation in the value of an asset.

12)Loss

The excess of expenses of a period over its related revenues its termed as loss.It decreases in owner's equity. It also refers to money or money's worth lost(or cost incurred) without receiving any benefit in return, e.g., cash or goods lost by theft or a fire accident, etc. It also includes loss on sale of fixed assets.

13)Discount

Discount is the deduction in the price of the goods sold. It is offered in twoways. Offering deduction of agreed percentage of list price at the time selling goods is one way of giving discount. Such discount is called 'trade discount'.It is generally offered by manufactures to wholesellers and by wholesellers to retailers. After selling the goods on credit basis the debtors may be given certain deduction in amount due in case if they pay the amount within the stipulated period or earlier. This deduction is given at the time of payment on the amount payable. Hence, it is called as cash discount. Cash discount acts as an incentive that encourages prompt payment by the debtors.

14)Voucher

The documentary evidence in support of a transaction is known as voucher.For example, if we buy goods for cash, we get cash memo, if we buy on credit,we get an invoice; when we make a payment we get a receipt and so on.

15)Goods

It refers to the products in which the business units is dealing, i.e. in terms of which it is buying and selling or producting and selling. The items that are purchased for use in the business are not called goods. For example, for a furniture dealer purchase of chairs and tables is termed as goods, while for other it is furniture and is treated as an asset. Similarly, for a stationery merchant,stationery is goods, whereas for others it is an item of expense (not purchases)

16)Drawings

Withdrawal of money and/or goods by the owner from the business for personaluse is known as drawings. Drawings reduces the investment of the owners.

17)Purchases

Purchases are total amount of goods procured by a business on credit and on cash, for use or sale. In a trading concern, purchases are made of merchandise for resale with or without processing. In a manufacturing concern, raw materials are purchased, processed further into finished goods and then sold. Purchases may be cash purchases or credit purchases.

18)Stock

Stock (inventory) is a measure of something on hand-goods, spares and other items in a business. It is called *Stock in hand*. In a trading concern, the stock on hand is the amount of goods which are lying unsold as at the end of an accounting period is called *closing stock* (ending inventory). In a manufacturing company, closing stock comprises raw materials, semi-finished goods and finished goods on hand on the closing date. Similarly, *opening stock* (beginning inventory) is the amount of stock at the beginning of the accounting period.

19)Debtors

Debtors are persons and/or other entities who owe to an enterprise an amount for buying goods and services on credit. The total amount standing against such persons and/or entities on the closing date, is shown in the balance sheet as *sundry debtors* on the asset side.

20)Creditors

Creditors are persons and/or other entities who have to be paid by an enterprise an amount for providing the enterprise goods and services on credit. The total standing to the favour of such persons and/or entities on the closing date, is shown in the Balance Sheet as *sundry creditors* on the liabilities side.

ASSIGNMENT

From the above, answer the following :

1. What is the amount of capital with which Mr. Sunrise started business.
2. What are the fixed assets he bought?
3. What is the value of the goods purchased?
4. Who is the creditor and state the amount payable to him?
5. What are the expenses?
6. What is the gain he earned?
7. What is the loss he incurred?
8. Who is the debtor? What is the amount receivable from him?
9. What is the total amount of expenses and losses incurred?
10. Determine if the following are assets, liabilities, revenues, expenses or none of these: sales, debtors, creditors, salary to manager, discount to debtors,drawings by the owner.

IMPORTANT QUESTIONS*.(to be send on my whatsapp after completing)*

1. Define accounting.
2. State what is end product of financial accounting.

3. Enumerate main objectives of accounting.
4. List any five users who have indirect interest in accounting.
5. State the nature of accounting information required by long-term lenders.

Long Answers

1. Explain the factors, which necessitated systematic accounting.
2. Describe the brief history of accounting.
3. Explain the development of and role of accounting.
4. Define accounting and state its objectives.
5. Describe the informational needs of external users.