CH-2

Basic Accounting Terms

① Business Transaction

- It means "financial" transaction or event that initiates the accounting process of "recording" it in the Books of account of an enterprise.

- Business transaction

हिसाब - किताब

Relationship with the Accounting Unit

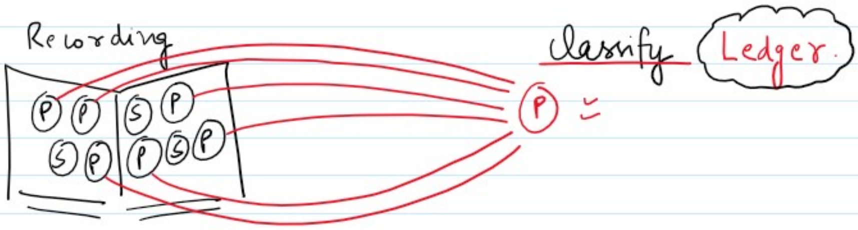
- Internal transaction or Accounting transaction
  - eg Depreciation — गिरावट in value of asset
- External transaction or Business transaction
  - eg. Cash paid to creditor.

Mode of Settlement of value

- Cash transaction — pen, cash
- Credit transaction — pen, उधार, 1 month Later

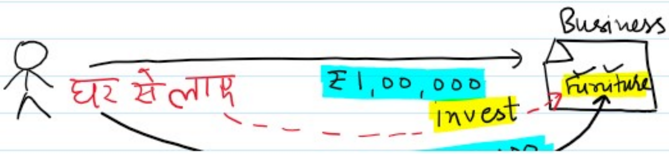
② Account

- It is a record of transactions under a particular head.



③ Capital

→ Capital is the amount invested in an enterprise by the proprietor (owner)



घर से लाए ₹1,00,000 invest Furniture
₹20,000

Capital = ₹ 100,000 or ₹ 120,000 ??? (✓)

→ It may be in form of money or assets having monetary value.

→ Capital is also known as Net Worth (IM) or OWNER'S EQUITY (IM)

* $\boxed{\text{Capital = Assets (−) Liabilities}}$

④ Drawings

Capital ₹120000 घर से लाया — proprietor — घर
वापस घर ले गया — personal use
Furniture 5000 — ₹ 20,000

→ It is the amount withdrawn or goods taken by the proprietor for personal use

→ Drawings reduces the Capital of owner.

⑤* LIABILITIES (बोझ = Burden)

→ liabilities mean amount owed (payable) by the business.
देने पड़ेंगे

→ liability towards owner* is termed as INTERNAL LIABILITY (Capital)

→ liability towards outsiders is termed as EXTERNAL LIABILITIES

किसी से पैसे लिए ₹ 100,000
Business ← Salman Khan (outsider)
3 month
कब वापस

→ External liabilities

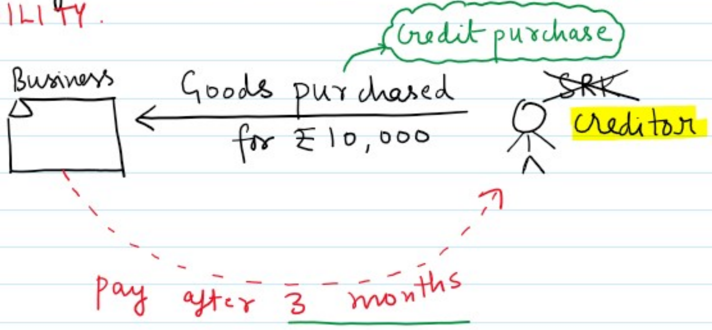
Non Current liabilities
↓
liabilities payable

Current liabilities
↓
liabilities payable

liabilities liabilities payable **after 12 months** eg :- Bank loans etc	liabilities liabilities payable **within 12 months** eg :- Creditors, Bills payable etc

(6) Creditors

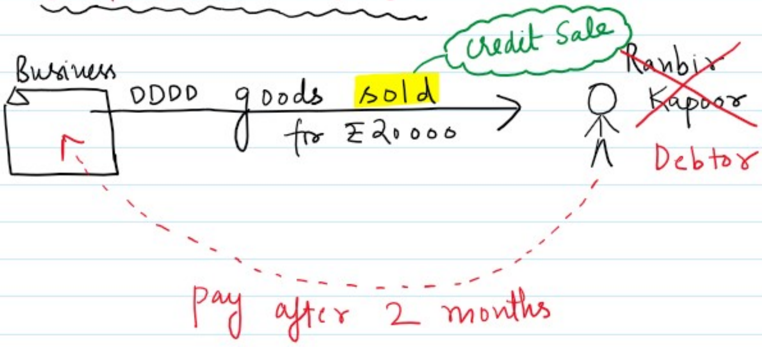
- Creditors are persons from whom business purchase goods on credit. Generally amount payable to creditor is within 12 months therefore it is treated as CURRENT LIABILITY.



(7) DEBTOR

silent

→ Debtor is a person from whom money is receivable to the business on account of Credit Sale. Generally debtors are receivable within 12 months, therefore they are treated as CURRENT ASSET



(8) **ASSETS**

→ Assets are the "**future economic benefit**", the rights, which are owned or controlled by an organisation.

→ Assets are the properties owned by an enterprise

→ Examples :- Furniture, Land, Building, Cash, Bank balance, Debtors etc

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→ Assets can be classified into (i) Non Current assets (ii) Current assets & (iii) Fictitious asset.

(i) Non Current Assets

{ Those assets which are not meant for sale and are held for a period of more than 12 months. }

Tangible asset

Those assets which can be seen or touched i.e they are having physical existence.

eg :- Land, Building, Furniture, machine etc.

Intangible asset

Those assets which cannot be seen or touched i.e they have no physical existence.

eg :- GOODWILL, Patents, copyrights

अधिकार

(ii) Current Assets

(Those assets which can be easily converted into cash & are held for resale & for period less than 12 months)

eg - Debtors, Stock, Cash, Bills Receivable, Prepaid expense etc etc

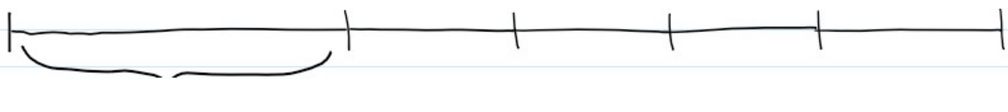
(iii) Fictitious asset

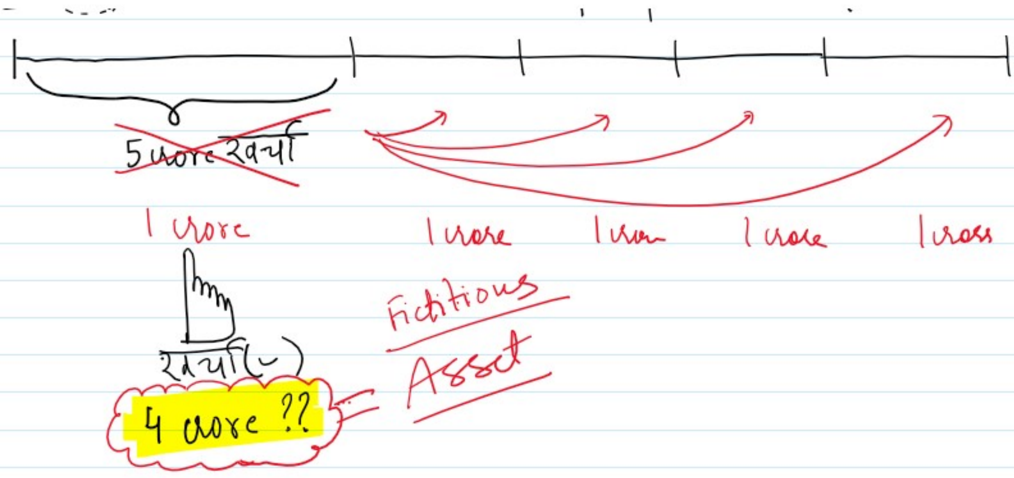
Kalpnik
(imaginary)

[These are losses not written off in the year in which they are incurred but in more than one accounting period]

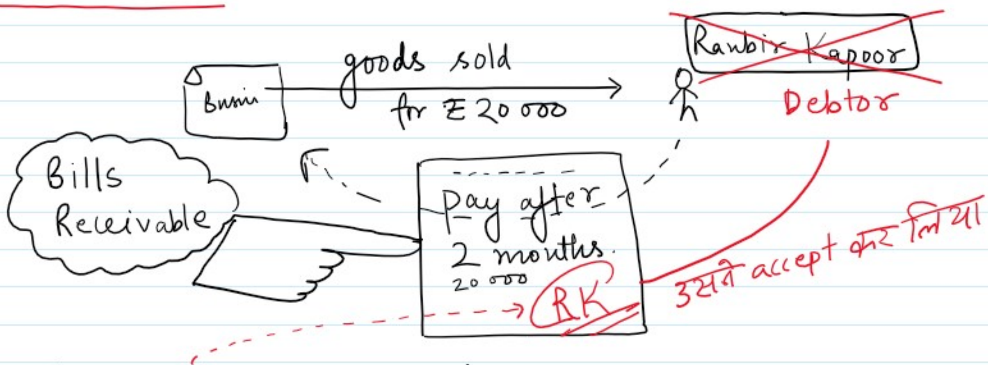
eg - Deferred Revenue expenditure such as Advertisement expenditure.

postpose = Defer



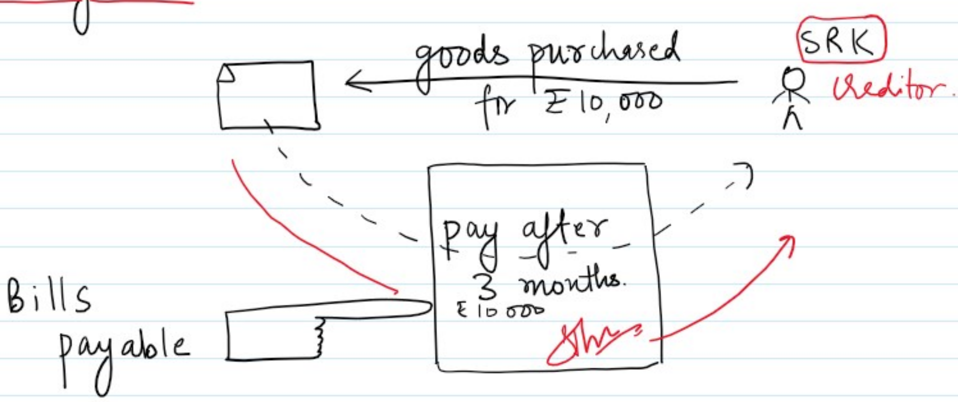


(9) Bills receivable



- Acceptance received from debtor.

(10) Bills Payable



- Acceptance given to the creditor.

(11) Trade Receivable - पैसे मिलेंगे

It is the sum total of $\boxed{\text{Debtors}}$ + $\boxed{\text{Bills Receivable}}$

(12) Trade Payables → पैसे देते हैं

It is the sum total of $\boxed{\text{Creditors}}$ + $\boxed{\text{Bills Payable}}$

* *

Current Assets	Current liability
Debtors	Creditors
Bills Receivable	Bills Payable

(13) RECEIPTS

Amount received or receivable

Revenue Receipt

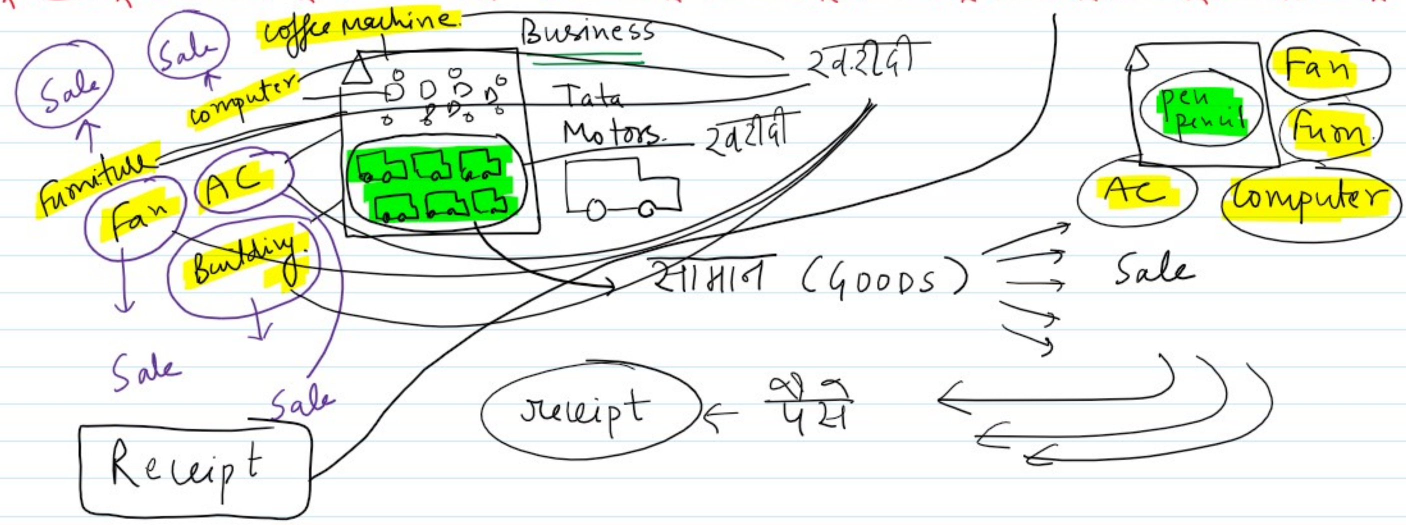
→ It is the amount received in normal course of business like sale of goods.

→ eg :- Sale of goods or services, commission received etc

Capital Receipt

→ It is those receipt which is NOT revenue receipt

→ eg :- Sale of Non Current asset like furniture, Machine etc



(14) EXPENDITURE

पैसे देदिए   पैसे दे दूँगा

→ Expenditure is the amount spent or liability incurred for acquiring assets, goods or services.

खरीदना

खरीदना

छोटे खर्चे   Imp*   मोटे खर्चे

① Revenue expenditure	② Capital expenditure
→ Revenue expenditure is the expenditure incurred, the Benefit of which is consumed within an accounting period (1 year)	→ Capital expenditure is incurred to acquire fixed assets or improving the existing fixed assets. i.e Benefit of which will last for more than 1 year.
→ ex - Salaries, Rent, electricity etc.	- eg - purchase of machine, equipment etc.

(15) Expense

→ Ⓡ Expense is the cost incurred for generating Revenue (IM)

Revenue → Revenue Receipt

Expense → Revenue expenditure

* Deferred Revenue expenditure - It is a revenue expenditure but is written off in more than one accounting period

eg - Advertisement expenses.

Defer → postpone

छोटा खर्चा

Adv. exp - 5 crore

~~5 crore~~ 1 crore	1 crore	1 crore	1 crore	1 crore.

(16) Income

Income is the profit earned during an accounting period.

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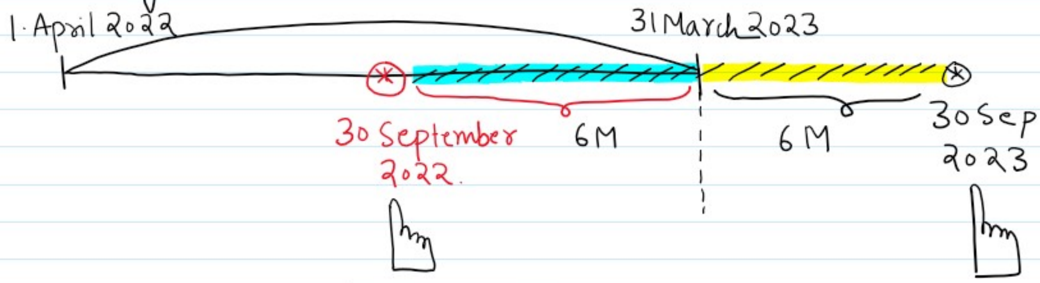
$$\text{Income (profit)} = \text{Revenue} (-) \text{Expense}$$

Revenue Receipt (−) Revenue expenditure

(17) **Prepaid Expense**

- Expense $\boxed{\text{paid}}$ but relating to next financial year



₹120,000 for one year

eg:- Prepaid Rent = ??? $\boxed{60,000}$

Prepaid Salary etc

* * Prepaid Expenses are CURRENT ASSET

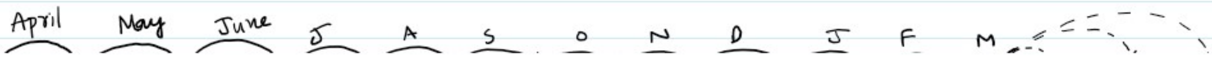
Prepaid expense vs deferred Revenue exp.

Current asset | Fictitious asset

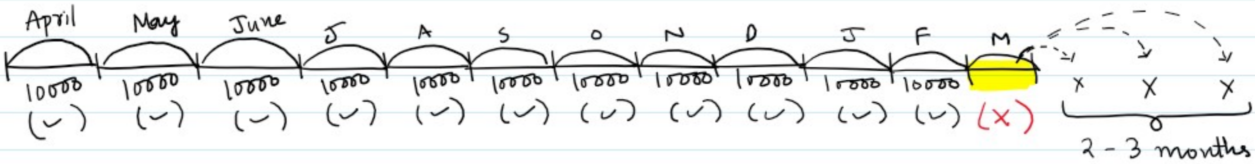
10 years.

(18) **Outstanding expense**

- Expense incurred but not paid
- Eg :- Salary for month of March is unpaid i.e outstanding Salary



unpaid i.e. outstanding salary



* Outstanding expense is **CURRENT LIABILITY**

(19) **PROFIT** – Profit earned from **normal course** of business.

$$\boxed{\text{profit} = \text{Revenue} (-) \text{Expense}}$$

Gross Profit :- Revenue (–) Direct expenses

Net Profit :- Revenue (–) Total expenses

(20) **GAIN** – Profit earned from ***irregular*** activities

**eg :- Gain on sale of fixed asset

(21) **LOSS** – Excess of expenses over Revenue

$$\boxed{\text{Loss} = \text{Expenses} (-) \text{Revenue}}$$

(22)* **Stock (or Inventory)**

→ Goods remaining **unsold** or **unused in manufac-turing** as on particular date.

1st April → Opening Stock

31st March → Closing stock

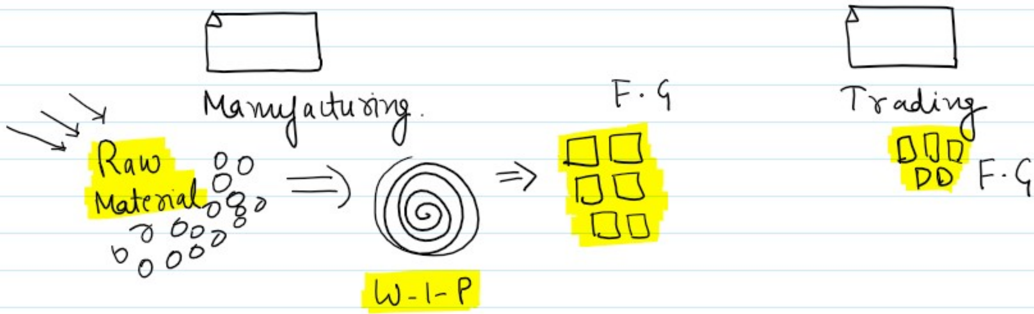
*//→ Stock may be of following types :-

a) Raw Material – Manufacturing entities

b) Work in progress – Manufacturing entities

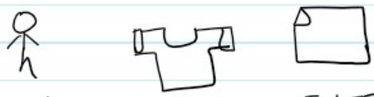
c) Finished Goods – Manufacturing + Trading entities

c) Finished Goods. — Manufacturing & Trading entities.



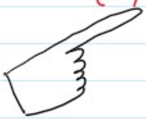
(23) DISCOUNT — A reduction in price of goods sold

Trade discount | Cash discount



1 - Tee	₹1000
2	₹2000
3	₹3000
100	₹100,000
	(-) 10% (10,000)
	₹90000

BULK Quantity



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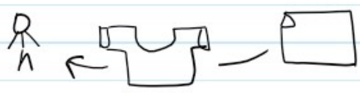


1 Tee ₹1000

after 5 months

within 10 days ₹900.

जल्दी पैसे

→ Trade discount is the reduction in prices by the seller to the purchaser of goods when they buy in bulk quantities.

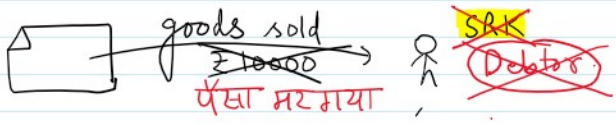
→ Trade discount is not recorded in Books.

→ Cash discount is the discount allowed for timely or early payment

→ Cash discount is recorded in Books.

* Bad debt

debtors



* Bad debt

बुरे — debtors

(बदमाश)

goods sold ~~₹10000~~ → SRK ~~Debtor~~

पैसा मर गया

insolvent → Bankrupt

after 6 months

- $\boxed{\text{Debt not recoverable.}}$

* **Depreciation**

→ Reduction in value of fixed asset.
(गिरावट)

× —— × —— × —— × —— × —— × —— ×