NORTH-EX PUBLIC SCHOOL
(Senior Secondary, Affiliated To CBSE)
School Block, Jain Nagar, Sector-38, Rohini, Delhi – 81
SUBJECT – ACCOUNTANCY (055)
CLASS -11TH
WEEK NO. 5

CHAPTER – 2
BASIC ACCOUNTING TERMS

1. **Business Transaction**: A business transactions is an economic activity that can be measured in terms of money and which affects the financial position of the business entity. A business transaction has an effect on any of the accounting elements – Assets, Liabilities, Capital, Income and Expense. The chief features of a transaction are:- (i) It involves an economic activity. For example, when goods are purchased. Social activities are not considered as transactions. For example, if X purchase a gift for his friend, it will not be considered as a transaction. (ii) Transaction may be classified into two types – External and Internal. External transactions are those which involve economic activities between two independent business entities such as purchase or sale of goods. Internal transactions are those economic activities that take place entirely within one business entity such as depreciation charged on fixed assets. (iii) The change must be capable of being expressed in terms of money.

2. **Event**: An event is the consequence or result of a transaction. For Example, Closing Balance of Cash, Closing Stock, and Closing Capital etc.

3. **Account**: Account refers to a summarised record of relevant transactions of particular head at one place. All elements are divided into two side. The left side of an account called Debit Side and the right side of an account is called Credit Side. For Example, the transaction relating to cash are recorded in an account, entitled 'Cash Account'

4. **Capital**: Amount invested by the owner/proprietor in the firm is known as capital. It is the amount with the help of which goods and assets are purchased in the business. Capital also known as Owner Equity or Net Worth or Net Assets. This can be express as: Capital = Assets – Liabilities

5. **Drawing**: The money or goods or both withdrawn by owner from business for personal use, is known as drawings. For Example, purchase of car for wife by withdrawing money from business.

6. **Liability**: Liabilities are obligations or debts that an enterprise has to pay after some time in the future. This can be express as: Liabilities = Assets – Capital The bills payable, creditors, unpaid wages are the examples of liability. Liability may be divided into parts: (a) Internal Liabilities: All amounts which a business entity has to pay to the proprietor or owners are internal liabilities such as Capital and Accumulated Profits. (b) External Liabilities: All amounts which as business entity has to pay to the outsiders are known as external liabilities such as Creditors, Bank Overdraft, and Loans etc. Liabilities may be further classified into two parts as under: (a) Current Liabilities: Current liabilities are obligations or debts that are payable within a period of one year. For example, Creditors and Bills Payable. (b) Non-Current Liabilities: Non-Current liabilities are those obligations or debts that are payable after a period of one year. For Example, Long Terms Loans and Debentures etc.

7. **Assets**: A resource owned by a business entity that can be expressed in terms of money and provides future economic benefits to the business entity. According to the above definitions there are three main characteristics of an asset: (a) Resource owned by business entity. (b) Expressed in terms of money. (c) Future economic benefits. Assets may be classified into the following categories: 1) **Current Assets**: Currents Assets are those assets which are held for short period and can be converted into cash within one year. For example, Debtors and Stock etc. Current assets also known as Short Lived Assets, Active Assets, Floating Assets and Circulating Assets.

2) **Non-Current Assets**: Non-Current Assets are those assets which are hold for long period and used for normal business operations. For example, Land, Building, Machinery etc. They are further classified into: (a) Tangible Assets: Tangible Assets are those assets which have physical existence and can be seen and touched. For example, Furniture, Machinery etc. (b) Intangible Assets: Intangible Assets are those assets which have no physical existence and can be felt by operation. For example, Goodwill, Copyright, Trade Mark etc. 3) Fictitious or Nominal Assets: These are the assets which cannot be realized in cash or no further benefit can be derived from these assets. Such assets include Debit balance of P&L A/c and the expenditure not yet written off such as Advertisement Expenses etc. These assets are not really assets but are shown on the assets side only for the purpose of transferring them to Profit & Loss Account gradually over a period of time.

8. **Receipts**: (a) Revenue Receipts: Revenue Receipts are those receipts which are occurred by normal operation of business like money received by sale of business products. Revenue Receipts are shown on the Credit side of Trading and Profit & Loss Account. (b) Capital Receipts: Capital Receipts are those receipts which are occurred by other than business operations like money received by sale of fixed assets. Capital Receipts are shown in the Balance Sheet either as increase in liabilities or as reduction in the value of the assets.

9. **Expenditure**: Spending money or incurring a liability for acquiring assets, goods or services is called expenditure. The expenditure is classified as: 1) Revenue Expenditure: It is the amount spend to purchase goods and services that are used during an accounting period is called Revenue Expenditure. For Example, Rent, Interest etc. 2) Capital Expenditure: If benefit of expenditure is received for more than one year, it is called Capital Expenditure. For Example, Purchase of Machinery. Distinction between Capital Expenditure and Revenue Expenditure (a) Capital expenditure is incurred for the acquisition or erection of a fixed asset, whereas revenue expenditure is incurred for the day to day running of the business. (b) Capital expenditure is incurred for the purpose of increasing the earning capacity of the business, whereas revenue expenditure for maintenance of earning capacity i.e., for keeping the assets in as efficient working order. (c) Capital expenditure yields benefit normally over a long period, whereas revenue expenditure yields benefit for maximum period of one year. (d) Capital expenditure is written in the balance sheet, whereas revenue expenditure is written in Trading and Profit & Loss Account.

10.**Expenses**: Expenses is the cost incurred in producing and selling the goods and services. Following are included in the term Expenses:- (a) Cost of goods sold. (b) Amount paid for Rent, Commission, Salary, Advertisement etc. (c) Decline in the value of an assets caused by the use of such asset for business purpose or depreciation is also an expense.

11.**Income**: ‘Income’ is different from ‘Revenue’. Amount received from sale of goods is called ‘Revenue’ and the cost of goods sold is called ‘Expense’. Surplus of revenue over expenses is called

‘Income’. For Example, the goods costing 4,00,000 are sold for 5,00,000. The sale amounting to 5,00,000 is the revenue, the cost amounting to 4,00,000 is expenses and the difference between the two i.e. 1,00,000 is the income. It can thus, be expressed as: Income = Revenue – Expense
12.Profit: It is the excess of total revenues over total expenses of a business enterprise of an accounting period. Profit increases the investment of the owners.

13.**Gain**: A non-recurring profit from events or transitions incidental to business such as sale of fixed assets, appreciation in the value of an assets etc. For Example, if a building costing 10,00,000 is sold for 18,00,000, 2,00,000 will be the gain on sale of building.

14.**Loss**: The term conveys two different meanings. First, it conveys the result of the business for a period when total expenses exceed the total revenues. For example, if revenues are 2,00,000 and expenses are 2,40,000, the loss will be 40,000. Second, activity against which firm receives no benefit. For example, loss due to fire, theft, accident etc. It may be noted that losses differ from expenses. Expenses are incurred to generate revenues whereas losses do not. For example, the theft of an assets is a loss but its depreciation is an expense.

15.**Purchase**: The term purchases is used only for the goods acquired by a business for resale. In case of trading concerns it is purchase of final goods and in manufacturing concern it is purchase of raw material. Purchase may be cash purchases or credit purchase. For example, if a cloth dealer purchases cloth for sale, the cloth so purchased will be called ‘goods’. However, if the same cloth dealer purchases furniture for seating the customers, such furniture will not be termed as goods, but it will be an ‘Assets’ and a separate account named ‘Furniture Account’ will be opened for it.
Purchase Return: When purchased goods are returned to the suppliers these are known as purchase returns. Such returns are also termed as ‘Returns Outwards’.

16.**Sales**: Sales means transfer of ownership of goods or services to customer for a price. For example, if Tarun sells a Computer to Varun, the ownership of computer will be transferred from Tarun to Varun and Tarun is entitled to receive the agreed price of computer from Varun. The term ‘sales’ is used only for the sales of those goods which are purchased for resale purpose. It also includes revenues from services provided to customer. 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 includes both Cash and Credit sales. Sales Return: Some customers might return the goods sold to them. These are termed as sales returns or ‘Returns Inwards’.

YOUTUBE VIDEO LINK FOR THE ABOVE TOPIC

https://www.youtube.com/watch?v=RoBRrXfNRFI

QUESTIONS FOR THE ABOVE TOPIC

1. Write five examples of Assets ?
2. Write five examples of revenue ?
3. Write five examples of liabilities ?

4. Write five examples of deferred revenue expenses ?
5. Write type of losses ?