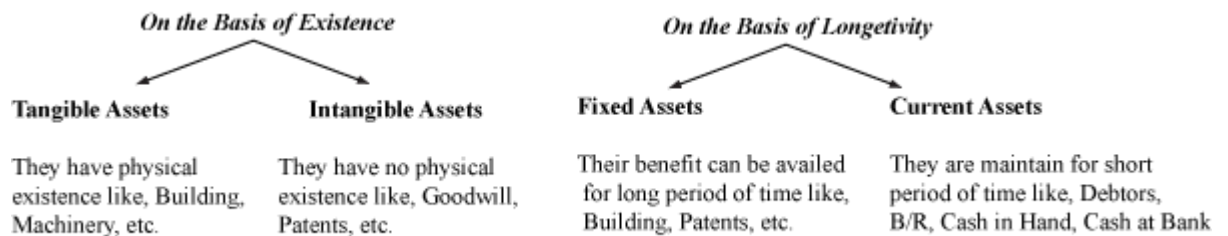


## CHAPTER 2

### BASIC ACCOUNTING TERMS

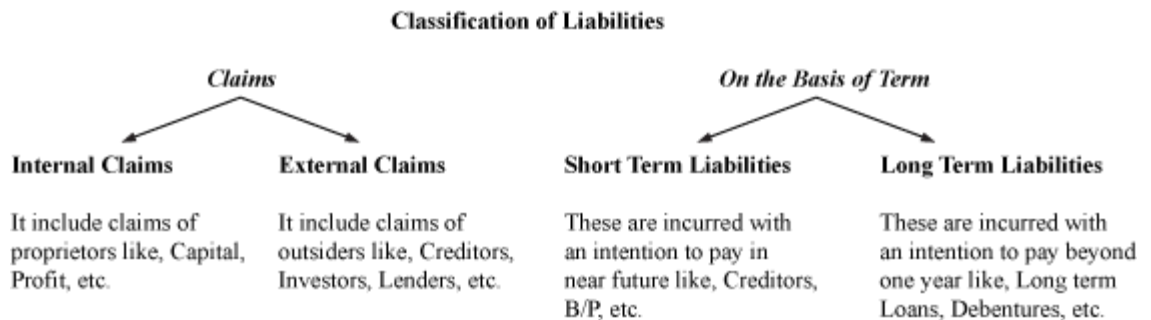
- **Assets**– Assets are the right of ownership of the business on its physical properties (called tangible assets) or on non-physical properties (called intangible assets). Both the rights are measured and recorded in monetary terms in the books of account.

#### Classification of Assets



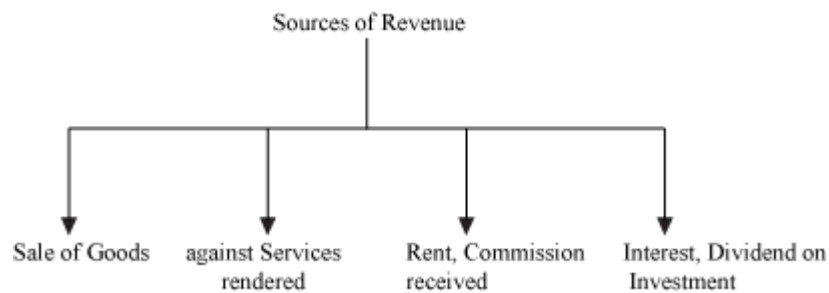
- **Liabilities**– Those amount which the business is liable to pay are called liabilities. For example, creditors, capital invested by the owner, bank overdraft, etc.

#### Classification of Liabilities

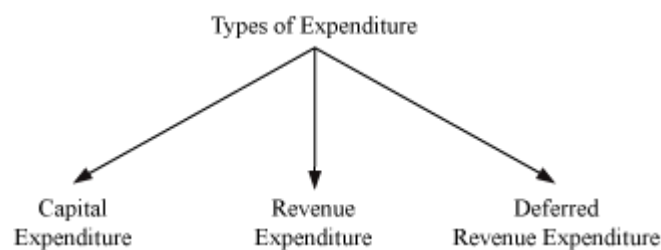


- **Contingent Liabilities** – Contingent liabilities refer to the amount that may or may not become liability depending on the outcome of a future event. In other words, these are potential liabilities. These liabilities are not shown in the Balance Sheet, but are shown as footnote of the Balance Sheet.
- **Capital** – The amount invested (either in form of cash or assets) by the proprietor in the business is called capital. Capital is a liability for the business, as the business is liable to pay back the amount of capital to the proprietor.

- **Drawings**– The amount withdrawn in cash or in form of other asset like, goods withdrawn from business by the proprietor is called drawings. Drawings reduce the amount of capital of the business.
- **Sales**– The sale of goods either in cash or in credit are called sales.
- **Revenues**– The amount which is either received or receivable from various business operations like, sale of goods, interest, dividend, rent etc. are called revenue.

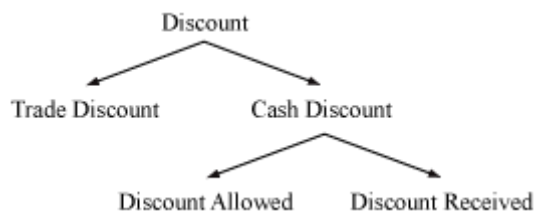


- **Expenses** – The amount that are incurred for generating revenue are called expenses. For example, purchase of goods, payment of wages, etc.
- **Expenditure** – Amount spent or liabilities incurred for the purchase of goods and services and for acquiring assets are called expenditure. For example, purchase of machinery on credit, or cash is expenditure for the business.



- **Capital Expenditure** – Expenditures that are incurred for the purchase of fixed assets like, machinery, building, land, etc. are called capital expenditure. This expenditure is of capital nature, as the benefits of these expenditures can be availed for a long period of time.
- **Revenue Expenditure** – Expenditure that are incurred during a normal operation of business, like rent paid, salaries, are called revenue expenditures. The benefits of this expenditure are availed only for one accounting period.

- **Profit** – Profit refers to the excess of revenue over its related expense.  
Algebraically,  
$$\text{Profit} = \text{Revenue} - \text{Expense}$$
- **Gain** – Gain refers to the profit from non-recurring business transaction. For example, profit on sale of machine of Rs 2,000 is considered as gain, as sale of machine is non-recurring in nature.
- **Loss** – Loss refers to the excess of expense over its related revenue. For example, loss on sale of machinery.
- **Discount** – It refers to:
  - Deduction in the sale price of goods and services
  - Deduction allowed on account of receiving quick payment from the debtors.



- **Trade Discount** – Generally this discount is allowed on the list price of the goods from whole seller to retailer or when goods are sold in bulk
- **Cash Discount** – This discount is allowed for spontaneous payment. This discount is allowed only when the payment is made.
- **Discount Allowed** – This discount is allowed when payment from the debtors is received.
- **Discount Received** – This discount is received when payment is made to the creditors.
- **Voucher** – Voucher is an evidential document containing details of a transaction. Some examples of voucher are bill, receipt, cash memo, etc.
- **Goods** – Those items which are produced or purchased with an intention to sell in the main course of a business are called goods. For example, furniture produced is considered as goods for a furniture company.
- **Stock** – Goods which are held by a firm for the purpose of sale in the normal course of the business are called stock.

- **Debtors** – Persons who owe amount to the business on account of credit sales of goods and services are called debtors.
- **Creditors** – Person to whom business owe amount on account of credit purchases of goods and services are called creditors.