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Accounting Terminologies

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1. Book-Keeping and Accountancy:

Meaning
- Book-Keeping is recording and classifying the transactions in a systematic manner.
- Accountancy records transactions, analysis, summarises and interprets the results thereof.

Stage
- In Book-Keeping recording of transactions is done at the first stage, immediately after business transaction takes place.
- Accountancy is the stage after book-keeping where the recorded and duly classified transactions are analysed, summarized and interpreted.

Objectives
- Book-Keeping aims at maintaining a record of the transactions and provides primary information.
- Accountancy aims at deriving the profits/losses of a business and analysing the financial position of the business.

Results
- Booking-Keeping results in the preparation of Journal and Ledger.
- The results of Accountancy are seen in the profit and Loss Account and Balance sheet.

Period
- Book-Keeping provides details of the day to day transactions.
- Accountancy provides the details for the whole accounting year.

Scope
- Book-Keeping has a limited scope.
- Accountancy has a wider scope.

Procedure
- Book-Keeping records the transactions in the Journal on a daily basis by following the rules of the Double Entry Book-Keeping system.
- Accounting includes processing of primary information available from the books of accounts and preparation of the financial statements.

Principles
- Book-Keeping requires the principles of elementary knowledge of Journalising and Posting
- Accountancy requires all the Accounting Principles.

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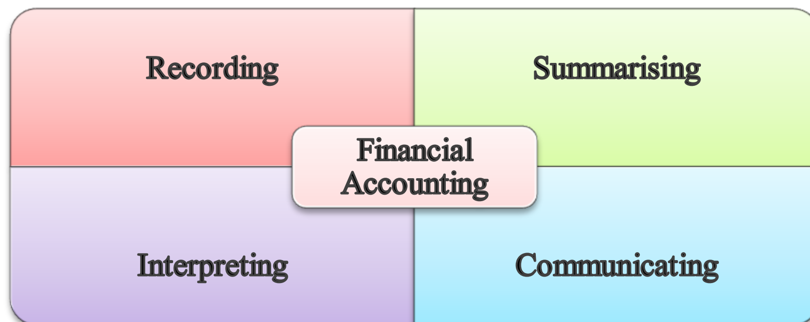
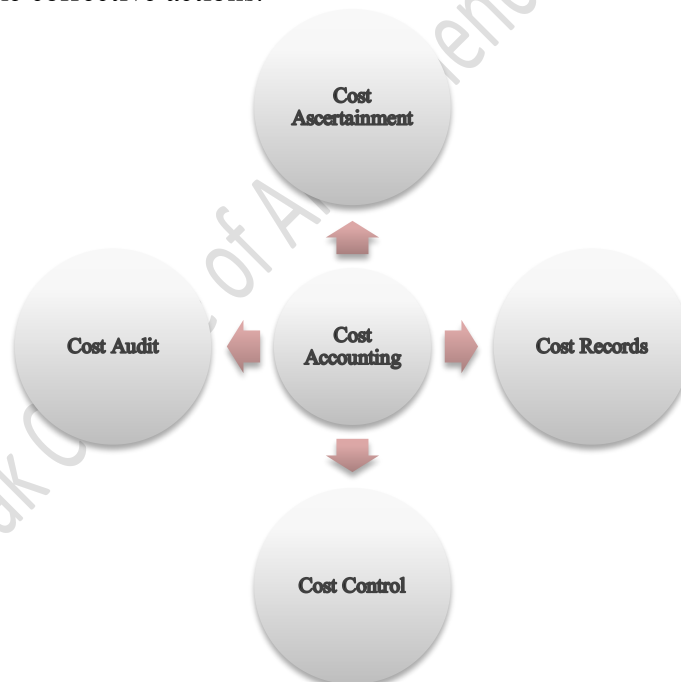
2. **Financial Accounting:** Financial Accounting is concerned with recording financial transactions, summarising and interpreting them and communicating the results to users. It shows the profit or loss of a particular period & the position of the business on a particular date.



3. **Cost Accounting:** Cost Accounting is a process to control the cost of product. The purpose of this branch of accounting is to determine the cost, control the cost and to communicate the cost related information to the various departments in order to make decisions and take corrective actions.



4. **Management Accounting:** Management Accounting is used by top management to make business decisions. It is essential for the top management to perform the various management functions. It covers various areas like Cost Accounting, Budgetary Control, Inventory Control, Statistical Methods, Internal Auditing etc. Management Accounting also facilitates the management in assessing the impact of the business decisions made and actions taken by them in the past.

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5. **Monetary Transactions:** The transactions which involve an exchange of money or money's worth, directly or indirectly, are called as Monetary Transactions. Only Monetary transactions are recorded in books of accounts.

These can be further classified into two types :

- **Cash Transactions:** Cash transactions are those transactions where the payment / receipt of cash occurs at the time of transaction only.
- **Credit Transactions:** Credit Transactions are those transactions where the payment or receipt of cash takes place after a specified period of time.

6. **Non-Monetary Transactions:** The transactions carried out without the involvement of money or money's worth, directly or indirectly, are called Non Monetary transactions. These transactions are not recorded in the books of accounts.

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7. **Barter System:** Barter System is when goods and services are exchanged against other goods and services.

8. **Entry:** Recording of a business transaction in the proper form or method in the books of accounts is called an entry.

9. **Narration:** A brief explanation of the business transaction for which an entry is passed is called as a narration. It is always given in a bracket below the journal entry and it usually starts with the word "Being" or "For".

Date	Particulars	L.F.	Debit Amount (₹)	Credit Amount (₹)
Year Month/ Date	Purchase A/c..Dr. To Cash A/c (Being purchased goods for cash)		2,000	 2,000

Narration

10. **Goods:** The term 'goods' refers to merchandise, commodities, articles or things in which a trader trades. These are purchased or manufactured for the purpose of sale and to earn profit.

E.g.i) Medicines are goods for the chemist.
ii) Vegetables are goods for the vegetable vendor.
iii) Parts like tyres, engine gearbox, cables are produced by a vehicle manufacturer like Bajaj Auto, Hero Motors.

11. **Proprietors:** The proprietor is the owner of business who starts the business with an objective to make profit. He is interested in knowing the position of his business as if he is earning profits or incurring loss. The profitability and financial soundness are, therefore, matters of prime importance to the proprietors who have invested their money in the business.

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12. Capital: Total amount of funds invested by proprietor in the business is called capital. In accounting sense, the excess of Assets over Liabilities is called capital.
The equation for this is: ***Capital = Assets – Liabilities***
Capital is a liability of the business as the amount is repayable to the owner of the business unit.

13. Drawings: Any goods or amount withdrawn by the proprietor from the business for his personal use is called Drawings.
E.g.: A proprietor pays colleges fees of his son, or pays for his medical expenses, mobile bills etc, from the business.

14. Debtor: A person who has to pay to the business for getting goods and services on credit is known as debtor. A debtor is a person who owes money to the business.

15. Creditor: A person to whom business has to pay for getting goods or services on credit is known as creditor. A creditor is a person to whom business owes money.

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16. **Bad Debts:** An irrecoverable amount from a debtor is known as "Bad Debts". It is a revenue loss to the business.

17. **Expenditure:** An amount spent by the business for any consideration received by business is called expenditure.

18. **Capital Expenditure:** This expenditure is incurred to acquire fixed asset or to increase the value of fixed asset. It gives the benefit for a long period of time and it is non-recurring in nature.
E.g.: Purchase of Machinery, extension of building, purchase of computer etc.

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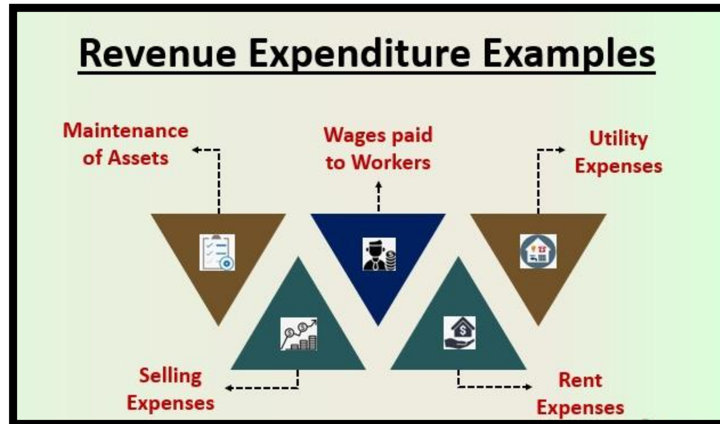
19. **Revenue Expenditure:** Revenue expenditure is an expenditure from which no future benefit is expected but having immediate or short term benefit may be less than one year. It does not increase profit earning capacity of an organization. These are normal day to day operating expenses of a business organization and appear on the debit side of Trading A/c or Profit and Loss A/c.
E.g.: Rent paid, Salary paid, Wages paid etc.



20. **Deferred Revenue Expenditure:** An expenditure which is basically revenue in nature but benefit of which is not exhausted within one year is called as Deferred Revenue Expenditure. Such expenditure is written off over number of years. Such written off amount is shown on debit side of profit and loss a/c and unwritten amount is shown on asset side of the Balance Sheet.
E.g.: Heavy expenditure on advertising, heavy legal expenses.

21. **Trade Discount:** It is an allowance given on catalogue price or list price of goods. This discount is allowed at the time of purchase/sale of goods. Value of goods purchased/sold recorded is net value payable i.e. after deduction of amount of trade discount allowed. If goods of ₹ 1000/- are sold at 5% trade discount, the value of goods that will be recorded will be ₹ 950/- both by the purchaser and the seller and not ₹ 1000/-. Hence, trade discount does not appear in the books of accounts separately.

22. **Cash Discount:** It is the amount deducted from the final amount due at the time of receipt. It is the concession given for encouraging prompt payment. It is given either for the spot payment or for payment within a specific period. Cash discount is calculated after deducting trade discount, since it is loss to the seller and gain to the buyer, cash discount appears in the books of accounts.

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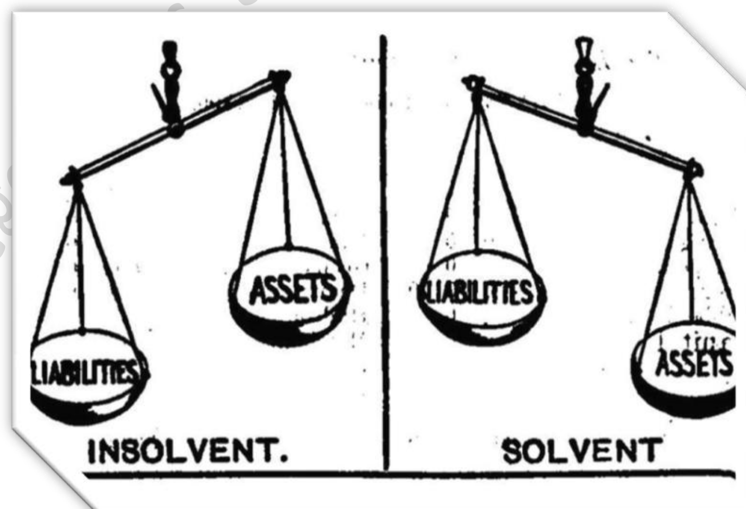
	Trade Discount	Cash Discount
	Meaning	
a.	Trade discount is an allowance on the list price of the goods.	Cash discount is an allowance on the amount to be paid in cash.
	Calculation	
b.	Trade discount is calculated on Gross Price or List Price.	Cash discount is calculated on the Net Price.
	Given by	
c.	Trade discount is provided by manufacturers or wholesalers to the retailers.	Cash discount is given by the person receiving cash payment to the person making the cash payment.
	Purpose	
d.	Trade discount allows businessmen to sell goods at the list price and yet earn profit.	Cash discount is given to encourage buyers to make early and prompt payment.
	Recording	
e.	Trade discount is not recorded in the books of accounts.	Cash discount is recorded in the books of accounts.

23. Solvent: If a person's assets are more than his liabilities, or equal to his liabilities, he is called as a solvent person. Solvent person is financially sound and is in a position to pay off all his debts.

E.g.: A person's total assets have been calculated to ₹ 50,00,000/- and his total debts were ₹ 30,00,000/- since his position is sound he is able to pay off his debts therefore he is called Solvent.



24. Insolvent: A person whose liabilities are more than his assets is an insolvent person. Such person's liabilities are more than his assets.

E.g.: A person's total assets or property have been calculated to ₹ 20,00,000/- and his total debts were ₹ 50,00,000/- and if he is not in a position to get any amount from any sources and if the court is so satisfied then he will be declared as an insolvent person.

25. Accounting Year: It is the period of 12 months for which accounts are maintained and closed by the proprietor. For income tax purpose an accounting year starts on 1st April and end on 31st March.

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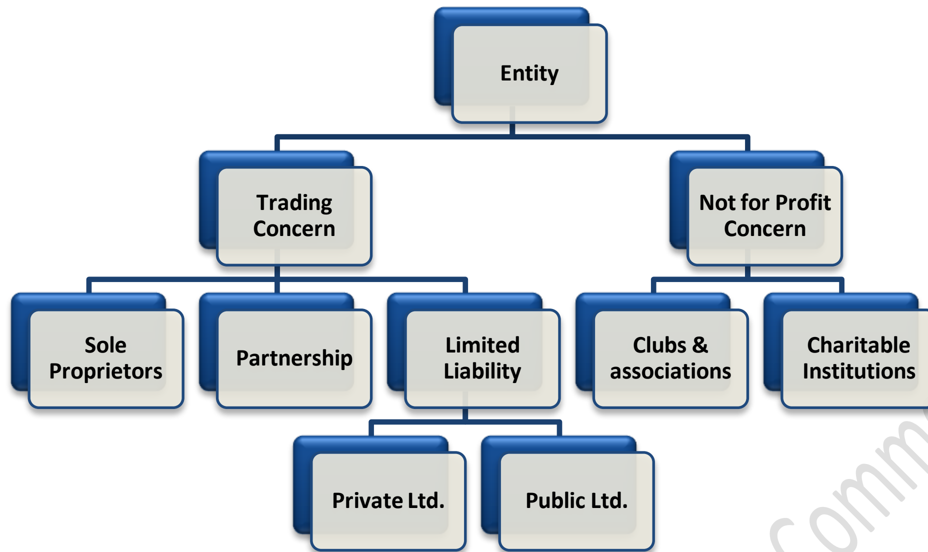
26. Entity:



27. Trading Concern: A business concern established with an object of earning profit by selling goods is known as Trading concern. It is also called as commercial organization or profit making organization.

28. Not for Profit Concern: It is an organization not established for making profit but for rendering services to the society. An organization may be formed for promoting a useful object like art, science, sports, culture, charity, profession etc.
E.g. Schools, Hospitals, Sports Club etc.

29. Goodwill: Reputation of the business in the market, valued in terms of money, is called Goodwill. It is an Intangible Asset. An Intangible asset is one which cannot be seen or touched. It can only be felt. Goodwill is the name established by the business in the market, measured in monetary terms.

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30. **Profit:** It is the excess of business revenue over the business expenses for a period. It is an addition to the owner's equity.
    E.g. If goods are sold for ₹ 50,000/- and all expenses during the period amounted to ₹ 30,000/- then the profit is ₹ 20,000/-

31. **Losses:** It is the decrease in the value of net assets. It is the excess of business expenses incurred over the business revenue earned during the year. It decreases the owners equity.
    E.g. If goods are sold for ₹ 50,000/- and all expenses during the period amounted to ₹ 60,000/, then the loss will be ₹ 10,000/-

32. **Income:** It is revenue arising as a result of business transactions. It is the amount receivable or realised from services provided and earnings from interest, dividend, commission, etc.

33. **Revenue:** It is income that a business has from its normal business activities usually from the sale of goods and services to customer.

34. **Assets:** Any physical thing or right owned that has a monetary value is called as an asset. The ownership of the Asset must be with business unit.
    E.g. Land, Goodwill, Patents, Computers, building, machinery, computer, furniture, vehicles, livestock etc.

    Types of Assets:

    a) Fixed Assets/Non-current Assets: The assets which give long term benefit to the business are known as fixed assets e.g. Land and Building, Plant & Machinery, Goodwill etc. These assets may be tangible or intangible.

    b) Current Assets: Assets which are held in the business for the operating year and can be converted into cash very easily are called as current assets. e.g. Debtors, Bills Receivable Cash in Hand, Cash at Bank, Stock etc.

    c) Fictitious Assets: These assets are not represented by tangible possession or property. They are imaginary assets but do not have any realisable value. e.g. Deferred revenue expense like advertisement paid for 4 years.

35. **Liabilities: A**mount payable by the business to others is known as liability. It is a debt or amount due from the business to others for the benefit received by the business unit. e.g. Loan taken, Creditors, Bank Overdraft, Outstanding Expenses etc.

    Types of Liabilities:

    a) Fixed Liabilities : One of the major source of funds in the business is fixed liabilities. It may be in the form of capital, secured loans, long term loans from banks and from financial institutions etc.

    b) Current Liabilities: Short term liabilities payable within a year are called current liabilities. Current liabilities arise in the regular current operations of the business. These liabilities are not normally secured. E.g. Creditors, Bills Payable etc.

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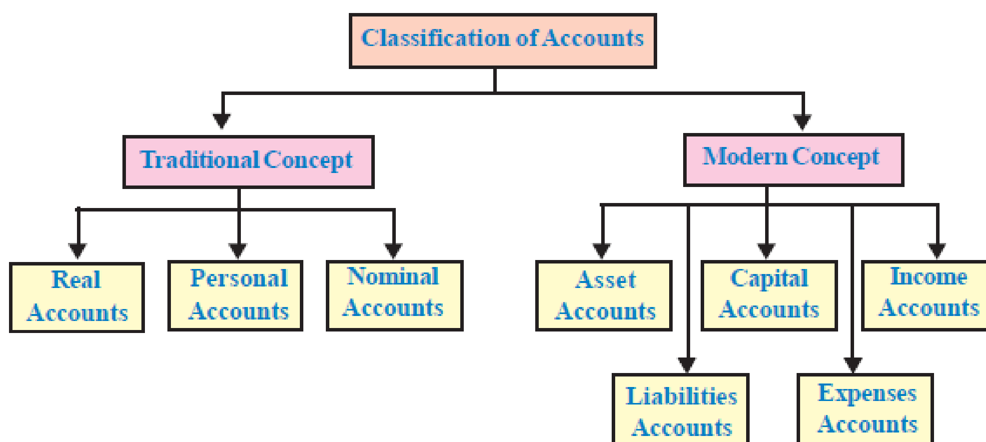
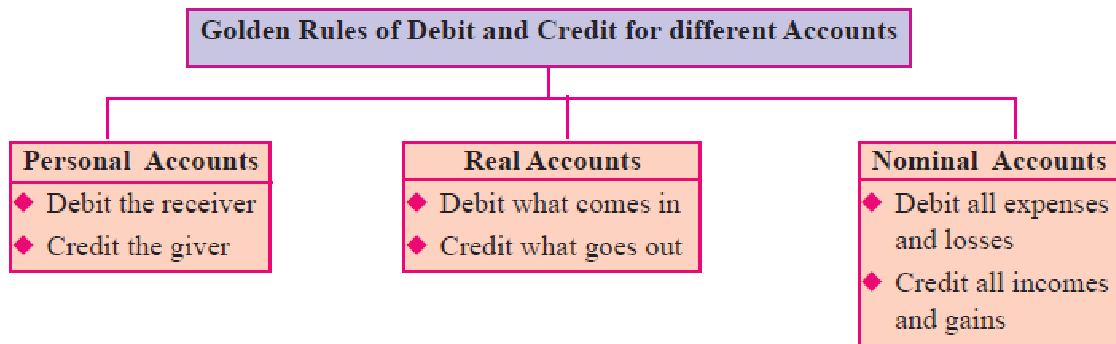
36. Contingent Liabilities: A liability which may arise in future depends on happening or non-happening of certain event is called as contingent liability. As it is not confirmed or perfect liability, it does not affect the financial position of the business and therefore, it is not shown on the liability side of the Balance Sheet. But it is shown by way of foot note to Balance Sheet simply as information. e.g. A worker makes a claim for compensation of ₹ 5,000/- against the business and the decision is pending in the court. It may be a future liability for business on happening of an event i.e. "Court Verdict"

37. Account: An account is a summarized record of transactions relating to a particular person, asset, liability, particular head of expense or income recorded at one place.



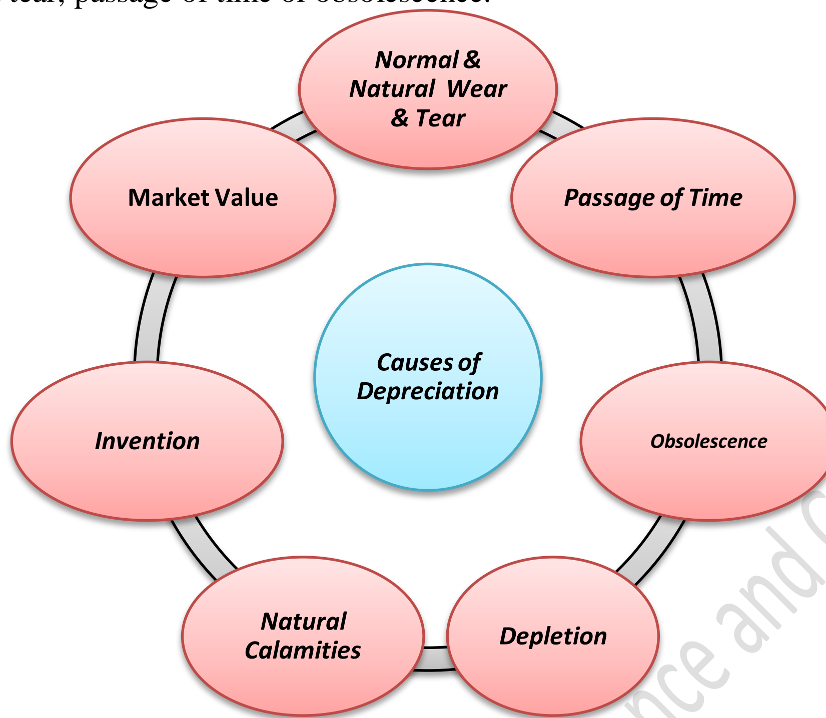
38. Golden Rules of Debit and Credit

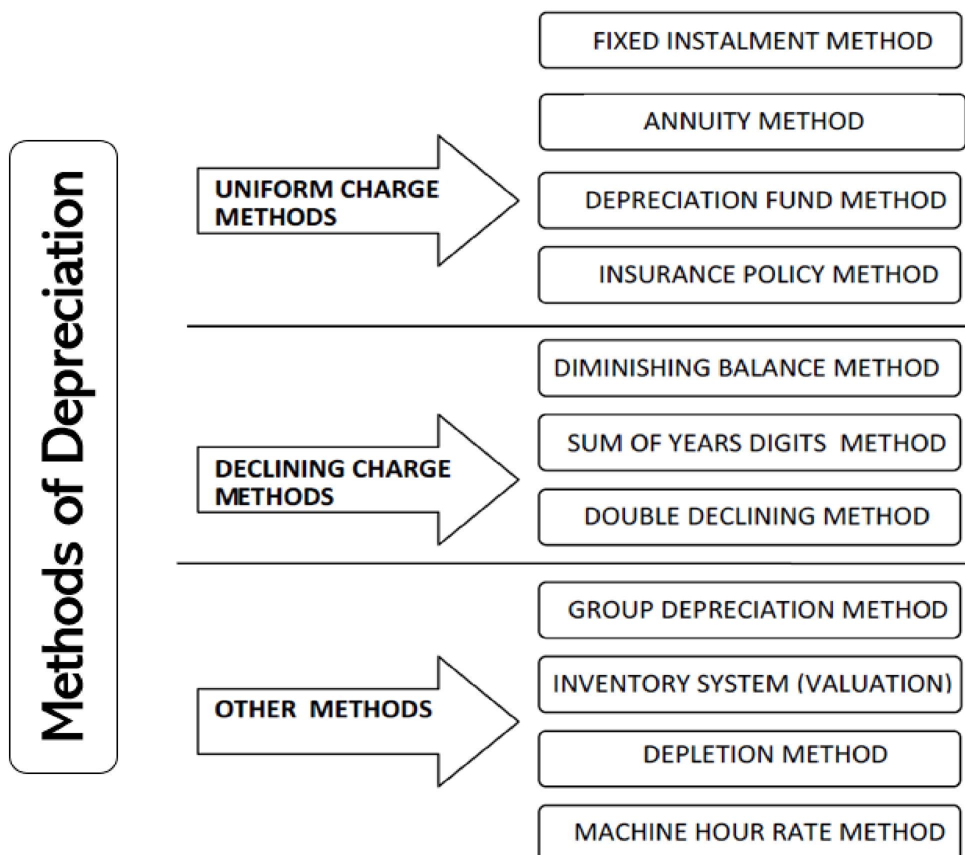


39. Accounting Equations: The recording of business transaction in books of accounts is based on a fundamental equation called Accounting Equation. *Whatever business possesses in the form of assets is financed by proprietor or by outsiders.* This equation expresses the equality of assets on one side and the claims of outsiders (liabilities) and owners or proprietors (capital) on the other side. Thus, an Accounting Equation is a mathematical expression which shows that the assets and liabilities of a firm are equal. In Mathematical form, ***Assets = Liabilities + Capital***

Assets = Liabilities + Capital

40. Depreciation: Depreciation is defined as shrinkage in the value of an asset due to wear and tear, passage of time or obsolescence.





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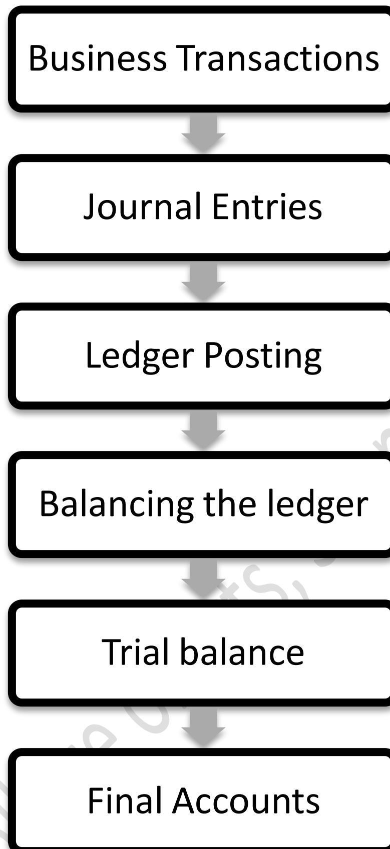
41. Final Accounts: Final Accounts are financial statements that validate and explain working results and financial status for a specific period of time on a particular date.

Final accounts include:
a) Manufacturing Accounts
b) Trading Account
c) Profit and Loss Accounts
d) Profit & Loss Appropriation Account
e) Balance sheet



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