



Chapter-2 Basic Accounting Terms

- 1) Business Transaction → A business transaction is an economic activity of the business that changes its financial position.
- 2) Account → An account is a ledger record in a summarised form, of all the transactions that have taken place with the particular person.
- 3) Capital → It refers to the amount invested by the proprietor in a business enterprise.
- 4) Drawing → Any cash or value of goods withdrawn by the owner for personal use or any private payments made out of business funds are called drawings.
- 5) Liability → It refers to the amount which the firm owes to outsider. Liabilities further divided as -
 - i) Internal Liabilities (iii) Non-Current Liabilities
 - ii) External Liabilities (iv) Current Liabilities
- 6) Assets → Assets are valuable resources owned by a business enterprise which can be measured in terms of money. Assets may be classified as -
 - i) Non-Current Assets (b) Non-tangible Assets
 - a) Tangible Assets
 - ii) Current Assets
 - iii) Fictitious or Nominal Assets
- 7) Capital Receipts And Revenue Receipts → Revenue Receipts are shown on credit side of Trading & P/L A/c whereas Capital Receipts are shown in Balance sheet.



- 8) Expenditure → Expenditure is the amount spent for acquiring assets, goods & services. Expenditure are classified as—
- i) Capital Expenditure
 - ii) Revenue Expenditure
 - iii) Deferred Revenue Expenditure
- 9) Expenses → Expense is the cost incurred in producing and selling the goods & services.
- 10) Income → Excess of Revenue over expenses is called income.
- 11) Profit → It is the excess of total Revenue over total expenses of a business enterprise for an accounting period.
- 12) Gain → Gains arises from events or transactions which are incidental to business such as sale of a fixed asset.
- 13) Loss → When total expenses exceed the total revenue of a business enterprise then it is termed as loss.
- 14) Purchases → The term purchases is used for buying of goods for resale or for use in manufacturing process.
- 15) Sales → The term sale is used for the amount of sale of goods & services rendered.
- 16) Stock → The term stock includes the value of those goods which are purchased for reselling & which are lying unsold at the end of accounting period.



17) Inventory → In case of manufacturer, there can be opening & closing inventory of 4 types:-

- i) Inventory of Raw Material
- ii) Inventory of Work-in-progress
- iii) Inventory of finished goods
- iv) Inventory of stock-in-trade.

18) Trade Receivable → It refers to the amount receivable on account of sale of goods or services rendered by Company.
Trade Receivable include Debtors and Bills Receivable.

⊙ Debtors → It represent to those persons or firms to whom goods have been sold or services rendered on credit & payment has not been received from them.

⊙ Bill Receivable → A bill of exchange become bill receivable for the person who draws it (drawer) & gets it back, after its acceptance from the drawee.

19) Trade Payable → Trade Payables is the amount payable on account of goods purchased or services taken in normal course of business. Trade Payable include Creditor & Bills Payable.

⊙ Creditors → It represent to those persons or firms from whom goods have been purchased or services procured on credit & payment has not been made to them.

⊙ Bills Payable → A bill of exchange become Bill Payable for the person who accept it (drawee) & Return it to drawer.



- 20) Goods → Goods include all those things which are purchased for reselling or which are used for producing finished products.
- 21) Cost → Cost can be termed as the amount of resources given up in exchange for some goods or services.
- 22) Voucher → Voucher is a document on the basis of which transactions are first recorded in the books.
- 23) Discount → It is the allowance given by seller to the buyer. It is of two types:-
- Trade Discount
 - Cash discount
- 24) Goods & Services Tax (GST) → All indirect taxes have been merged into a single tax known as GST.
- 25) Bad debts → It is the amount that has become irrecoverable from a debtor.
- 26) Insolvent → A person or an enterprise which is not in a position to pay its debts.
- 27) Solvent → A person or an enterprise which is in a position to pay its debts.
- 28) Revenue → Revenue is the income of a recurring nature such as receipts from sale of goods, Rent etc.



- 29) Turnover → Turnover means total sales made in a particular period.
- 30) Livestock → Domestic animals such as cattle or horses are known as livestock.
- 31) Investments → It refers to deployment of funds in the shares or debentures of Companies with the intention of earning a return.
- 32) Merchandise → Goods for Resale.
- 33) Fictitious Asset → These are the assets which cannot be realised in cash.