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Technical Terms Used in Accounting

1.) Accounting:

- A systematic way of recording and reporting financial transactions for a business or organization.

2.) Entry:

- Entry means record of a transaction in the books of account. When a transaction is recorded in journal or other subsidiary books, it is said that an entry is made.

3.) Transaction:

- A Transaction is an exchange of goods, services and cash, between persons. It is an event and it gives rise to an entry to be made in the books of account.

4.) Voucher:

- It is a document supporting a business transaction, which has been entered in the books of account, e.g., if a customer has made payment to us, we had issued a receipt to him. This receipt is a Voucher.

5.) Debit:

- It is a left-hand side of an account. 'To Debit' means to write on the debit side of an account.

6.) Credit:

- It is a right-hand side of an account. 'To Credit' means to write on the credit side of an account.

7.) Journal:

- It is a book of original entry in double entry book-keeping. It is a book in which a transaction is first entered immediately when it takes place. The entry made in this book is called 'Journal Entry'.

8.) Subsidiary Books:

- In a business where a large number of transactions take place daily, all transactions cannot be entered in one book called Journal. It will involve lot of time and labor. So, separate journals are kept for particular types of transactions, which are called subsidiary books. E.g., for recording all credit transactions related to purchase of goods, a purchase book is kept.

9.) Account:

- An Account is a summarized record of the transactions at one place relating to one person, one kind of property or one class of expenses or incomes. Each account is divided into two parts. The left-hand side is called a debit side and a right-hand side is called a credit side.

10.) Ledger:

- It is a main book of account. It is a book in which all accounts relating to persons, property and incomes and expenses are prepared. A ledger is a book in which accounts are kept.

11.) Posting and To Post:

- To post is an act of transferring an entry made in the book of original entry into ledger. The process of transferring such entry is called Posting.

12.) Balance:

- The difference between the totals of debit side and credit side of an account opened in a ledger for a specified period is called 'Balance'. The balance can be either a debit balance or a credit balance.

13.) Goods:

- The word ‘Goods’ is used for those articles in which the business deals. In other words, goods are those things which are bought by a businessman for resale to make profit.

14.) Stock:

- It is a balance of goods lying unsold with business on any day. The balance of goods on the last day of accounting year is known as ‘closing stock’ while balance of goods on the opening day of the year is known as ‘opening stock’. Closing stock of one year becomes the opening stock of the next year.

15.) Debtor:

- A debtor is a person who owes debt to business. If goods are sold to a person on credit, or if we have rendered services to a person for which he has not made payment, or if we have lent money to a person, such person is called a ‘Debtor’.

16.) Creditor:

- A creditor is a person to whom debt is owed by business. He is a person, to whom we have to pay money because we purchased goods from him on credit or he gave us services or we have borrowed money from him. It is a liability or debt of business to be paid in future.

17.) Liabilities:

- They are debts which a business owes to others. They are amounts payable by business. Such liabilities are creditors, bank overdraft, bills payable, etc.

18.) Assets:

- Assets are all those things or rights which are owned by the business and have monetary value. They are properties which help to run the business. E.g., cash, machinery, stock, debtors, etc.

19.) <u>Fixed Assets:</u>

- Fixed assets are those which are not purchased for resale, which help running of the business and whose benefit is available for a long time, e.g., building, machinery, furniture, etc.

20.) <u>Current Assets:</u>

- Current assets are those assets which are constantly converted into cash or other assets and whose values go on changing every day, e.g., stock, debtors, cash, etc.

21.) <u>Tangible Assets:</u>

- Tangible assets are those which have physical existence. I.e., which can be seen and touched, e.g., machinery, vehicles, stock, etc.

22.) <u>Intangible Assets:</u>

- Intangible assets have no physical existence. I.e., they cannot be seen or touched but they have monetary value, e.g., goodwill, patents, copyrights, etc.

23.) <u>Capital:</u>

- The amount invested by the proprietor in a business is called capital. A businessman brings capital when he starts business and he may also bring additional capital whenever more money is needed in business.

24.) <u>Drawings:</u>

- It is the value of cash or goods or any other asset withdrawn from business by a proprietor for his personal or domestic use. This personal account of the proprietor is called 'Drawing Account'.

25.) <u>Solvent:</u>

- A person is said to be solvent when his assets are more than his liabilities. He is able to pay his debts to the third parties in full.

26.) <u>Insolvent:</u>

- If a person's liabilities are more than his assets, he is called 'insolvent'. He is not able to pay his debts in full.

27.) <u>Expenses:</u>

- It is the money spent in conducting the business. It is paid for some services rendered by others.

28.) <u>Revenue:</u>

- Revenue is gross money receipts from sale of products and services, e.g., when goods costing Rs. 1000 are sold for Rs. 1500, then revenue is Rs. 1500. This is a gross receipt.

29.) <u>Income:</u>

- Income is net earnings from sale of products or services or on, any other account. E.g., when goods of Rs. 1000 are sold for Rs. 1500, the difference of Rs. 500 is the income.

30.) <u>Bad debts:</u>

- A person who owes debts to the business is a debtor. If, out of the amount receivable, some amount is not received, then it is a loss of business. Such loss is known as Bad debts.

31.) <u>Discount:</u>

- If the business man agrees to receive some amount less than the printed price or the amount shown in the invoice, the difference is called discount.

32.) <u>Trade Discount:</u>

- When a producer or a wholesaler allows some deduction on the catalogue price to the retailer, it is called trade discount. T.D. is not recorded in the books.

33.) <u>Cash Discount:</u>

- ❖ Cash discount is an allowance made by the receiver of cash to the payer for making prompt payment. C.D. is recorded in the books of accounts.

34.) <u>Allowance:</u>

- ❖ At the time of settlement of debt, some amount is allowed by the receiver to the payer, which is known as allowance.

35.) <u>Profit:</u>

- ❖ During a specified period, if the total income is more than the expenses, the difference is called profit.

36.) <u>Loss:</u>

- ❖ If during a specified period, the expenses are more than the income, then the difference is called 'Loss'.

37.) <u>Gross Profit or Gross loss:</u>

- ❖ When the sales are more than the purchase price of goods plus purchase expenses, then the difference is called Gross Profit.
- ❖ Conversely, if the sale proceeds are less than the purchase price plus expenses, the difference is the Gross loss.
- ❖ GP or GL is the result of Trading Account.

38.) <u>Net Profit or Net Loss:</u>

- ❖ Net profit is a surplus left after deducting all expenses from gross profit and adding other incomes to it.
- ❖ If, however, the expenses exceed the gross profit and other incomes, then the difference is the net loss.
- ❖ NP or NL is the result of Profit & Loss Account.

39.) <u>Loan:</u>

- Any amount borrowed or lent is called Loan.

40.) <u>Bills receivable:</u>

- When a debtor put his signature, on a document drawn by his creditor asking him to pay money after a specified time, the document is called Bill receivable for the creditor.

41.) <u>Bills payable:</u>

- The document which is written by a creditor and on which the debtor puts his signature and accepts to pay the amount mentioned therein within a specified time period, it is a bill payable for the debtor.

42.) <u>Trial balance:</u>

- A statement is prepared at the end of the year, in which balances of all accounts of the ledger are shown to verify the arithmetical accuracy of accounts. This statement is called a trial balance.

43.) <u>Annual Accounts or Final accounts:</u>

- At the end of the year, some statements are prepared to show the profit or loss of the business and also to know the financial position of business. These statements are called annual accounts or final accounts. They include trading account to show the gross profit or gross loss, Profit and Loss account to show the net profit or net loss and Balance sheet showing assets and liabilities of business.

44.) <u>Balance Sheet:</u>

- It is a statement prepared at the end of the year to know the financial position of the business.

THANK YOU