Financial Accounting: Basic Concepts of Accounting

Capital:

The money invested by the proprietor to start up a business is called capital.

Drawings:

The money or goods withdrawn by the owner from the business or his personal use is called drawings.

Liabilities:

Liabilities means the responsibility of the business towards the outsiders.

Current Liabilities:

Current Liabilities are those liabilities which become payable after short period of time.

Example: Short term loans, Provisions -> (Emergency Funds), Bills Payable, etc.

Fixed Liabilities:

Fixed Liabilities are those liabilities which becomes payable after long time period of time.

Example: Long Term loan, Creditors

Assets:

Assets are anything which gives benefits to the business in the future but initially it’s an expense.

Assets are basically of two types:

1. Tangibles: These assets can be seen and touched. Example: Land, Building, Machinery, etc.
2. Intangible: These assets cannot be seen or touched. Example: Goodwill, Patents, Copyrights, etc.

Other Types:

Current Assets: Current Assets are those assets which are used for short periods of time. These assets can be easily converted into cash. Example: Closing Stock, Cash, Bills Receivable, etc.

Fixed Assets: Fixed Assets are those assets which are used for long period of time. Example: Land, Building, etc.

Debtors:

The person to whom the goods are sold on credit is called debtor. It is an asset for the business.

Creditors:

The person from whom the goods are bought on credit is called creditor. It is a liability for the business.

Bad Debt:

The amount which is irrecoverable from the debtor is called Bad Debt.

Purchases:

Purchases means purchase of goods for resale or for manufacturing of other goods.

Purchase made in cash are called cash purchase.

Purchase made in credit are called credit purchase.

Purchase Return:

The returning of purchased goods to the seller due to certain reasons is called purchase return.

Other name of purchase return is “*Return Outward*”.

Sales:

“Sales” means selling of goods.

Sales made in cash is called cash sales.

Sales made in credit is called credit sales.

Sales Return:

The returning of sold goods form the buyer is called sales return.

Other name of Sales Return is called ‘Return Inward’.

Profit:

It is the surplus of revenues of a business over its cost.

Freight:

Fright means the cost for transporting of the goods.

Proprietor:

The person who makes the investments and bears all the risks connected with the business in called Proprietor (Owner).

Depreciation:

The fall in the value of an asset due to its usage is called Depreciation.

Carriage Inwards:

Carriage inwards means the cost inverted by the business for transporting the goods from purchased place to the business place.

Carriage Outwards:

Carriage Outwards means the cost incurred by the business for transporting the goods form the place of business to customer’s place.