Introductory Notes.

Entity: Entity means a reality that has definite individual Existance.

Business Entity: means a specificly identifiable business Enterprise, like Superbazzar, ITC limited Etc.

* An accounting system is always devised for a specific business entity.

Capital: Amount invested by the owner in the firm is known as capital. It may brought in the form of cash or assets by the owner for the business Entity.

* Capital is an obligation and a claim on the assets of business. Hence it is shown as a liability in the balance Sheet.

* It is the liability of the business towards the propwritters or partners which increases with further investment made in the business and amount of profit Earned. On the other hand it decreases when it is withdrawn (drawings) or losses incurred by the business.

* Capital is a liability because of business Entity concept, which is "Business is a separate and distinct Entity from it's owners" and transactions are recorded in books from the point of view of the business.

* Capital is also known as owners Equity or net worth. It is ~~also~~ always Equal to Assets minus liabilities.

$$\text{Capital} = \text{Assets} - \text{liabilities}.$$

* Drawings: It is the amount withdrawn or goods taken by the owner or propwriter for personal use. Drawings are deducted from the capital as it reduces the investment of owners.

* liabilities: liabilities are obligations or debts that an Enterprise has to pay sometime in the future.
* liability towards the owners is termed as internal liability. (Capital)
* liability towards outsiders (other than owners) is termed as External liabilities.
* External liabilities arise because of credit transactions or loans taken.
* liabilities can be classified into non-current liability and current liability.

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* Non current liability is that liability which is Stable after a period of more than a year, from the End of the accounting period.
Example: long term goals.

* Current liability is liability which is Scaleable within twelve months, from the End of the accounting period. Example: Creditors and short term goals.

* Creditor: is a person or an Enterprise to who a business owes amount against credit purchase of goods or services taken.
For Example: Anshika is the creditor of the firm where goods are taken on credit from her.

* Expenses: Cost incurred by a business in the process of Earning revenue are known as Expenses.
Example: Rent, wages, salaries, light, water, depreciation Etc.

* Expenditure: If the benefit of the Expenditure lasts for more than a year, it is treated as Capital Expenditure. Example: Purchase of machinery, furniture.

* Profit: Total income - total Expenses.

* Gains: The profit that arises from Events or transactions which are incidental (non-recurring) to business.
Ex: Sales or Fixed assets.

* loss: If total Expenses are more than total income then it is said to be a 'loss'.

* Discounts: Discount is the deduction in the price of goods sold. It is offered in two ways

=> Trade discount is applicable on bulk purchase

=> Cash discount is Entered in books of accounts where as trade discount is not.

=> Trade discount is offering reduction of agreed percentage of list price at the time of selling goods.

* Voucher: The documentry evidence in support of a transaction is known as voucher, Also as invoice

* ~~Discount:~~

~~=> Trade discount is applicable on bulk purchase Quantity:~~

=> Cash discount acts as an incentive that Encourages prompt payment by the debtors

Purchases: Purchase of goods to be sold or manufacture of goods
purchase returns: returns of goods purchased.

Goods: Goods purchased for resale or for manufactured products.

Stock or inventory: Goods remaining unsold or unused in manufacturing of product on a paticular date. Stock is a current asset held by an enterprise for the purpose of sale in the ordinary ~~cause~~ Course of business.
→ Opening stock: is the stock in hand in the beginning of accounting year.
→ Closing stock: is the stock in hand in the end of current accounting period.

Debtors: Debtor is a person or an Entity who owes amount to the enterprise against credit sales of goods or services.

Bills receivable: It means a bill of Exchange accepted by a debtor, the amount of which will be received on a specified date

Trade receivables = Debtors + bills receivable.