



Q13. Giving examples, explain each of the following accounting terms:

Fixed assets

Gain

Profit

Revenue

Expenses

Short-term liability

Capital

Answer :

Fixed assets- These are held for long term and increase the profit earning capacity of the business, over various accounting periods. These assets are not meant for sale; for example, land, building, machinery, etc.

Revenue- It refers to the amount received from day to day activities of business, viz. amount received from sales of goods and services to customers; rent received, commission received, dividend, royalty, interest received, etc. are items of revenue that are added to the capital.

Capital- It refers to the amount invested by the owner of a firm. It may be in form of cash or asset. It is an obligation of the business towards the owner of the firm, since business is treated separate or distinct from the owner.

Capital = Assets - Liabilities.

Gains- Gains are incidental to the business. They arise from irregular activities or non-recurring transactions; for example, profit on sale of fixed assets, appreciation in value of asset, profit on sale of investment, etc.

Expenses- Expenses are those costs that are incurred to maintain the profitability of business, like rent, wages, depreciation, interest, salaries, etc. These help in the production, business operations and generating revenues.

Profit- This refers to the excess of revenue over the expense. It is normally categorised into gross profit or net profit. Net profit is added to the capital of the owner, which increases the owner's capital. For example, goods sold above its cost

Short term liabilities- Those liabilities that are incurred with an intention to be paid or are payable within a year; for example, bank overdraft creditors, bills payable, outstanding wages, short-term loans, etc.

Q14. How will you define revenues and expenses?

Answer:

Revenues- Revenues refer to the amount received from day to day activities of the business, like sale proceeds of goods and rendering services to the customers. Rent received, commission received, royalties and interest received are considered as revenue, as they are regular in nature and concerned with day to day activities. It is shown in the credit side of the profit and loss account or trading account.

Expenses- Expenses refer to those costs that are incurred to earn revenue for the business. It is incurred for maintaining profitability of the business. It indicates the amount spent to meet short-term needs of the business. It is shown in the debit side of the profit and loss account or trading account. For example, wages, rent paid,

salaries paid, outstanding wages, etc.

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