Accounting Terminology

Transaction

"An event the recognition of which gives rise to an entry in accounting records. It is an event which results in change in the balance sheet equation. That is, which changes the value of assets and equity. In a simple statement, transaction means the exchange of money or moneys worth from one account to another account Events like purchase and sale of goods, receipt and payment of cash for services or on personal accounts, loss or profit in dealings etc., are the transactions".Cash transaction is one where cash receipt or payment is involved in the exchange.

Credit transaction, on the other hand, will not have 'cash' either received or paid, for something given or received respectively, but gives rise to debtor and creditor relationship. Non-cash transaction is one where the question of receipt or payment of cash does not at all arise, e.g. Depreciation, return of goods etc.,

Debtor

A person who owes money to the firm mostly on account of credit sales of goods is called a debtor. For example, when goods are sold to a person on credit that person pays the price in future, he is called a debtor because he owes the amount to the firm.

Creditor

A person to whom money is owing by the firm is called creditor. For example, Madan is a creditor of the firm when goods are purchased on credit from him

Capital

It means the amount (in terms of money or assets having money value) which the proprietor has invested in the firm or can claim from the firm. It is also known as owner's equity or net worth. Owner's equity means owner's claim against the assets. It will always be equal to assets less liabilities, say:

Capital = Assets **-** Liabilities.

Liability

It means the amount which the firm owes to outsiders that is, excepting the proprietors. In the words of Finny and Miller, "Liabilities are debts; they are amounts owed to creditors; thus the claims of those who ate not owners are called liabilities". In simple terms, debts repayable to outsiders by the business are known as liabilities.

Asset

Any physical thing or right owned that has a money value is an asset. In other words, an asset is that expenditure which results in acquiring of some property or benefits of a lasting nature.

Goods

It is a general term used for the articles in which the business deals; that is, only those articles which are bought for resale for profit are known as Goods.

Revenue

It means the amount which, as a result of operations, is added to the capital. It is defined as the inflow of assets which result in an increase in the owner’s equity. It includes all incomes like sales receipts, interest, commission, brokerage etc., However, receipts of capital nature like additional capital, sale of assets etc., are not a pant of revenue.

Expense

The terms ‘expense’ refers to the amount incurred in the process of earning revenue. If the benefit of an expenditure is limited to one year, it is treated as an expense (also know is as revenue expenditure) such as payment of salaries and rent.

Expenditure

Expenditure takes place when an asset or service is acquired. The purchase of goods is expenditure, where as cost of goods sold is an expense. Similarly, if an asset is acquired during the year, it is expenditure, if it is consumed during the same year, it is also an expense of the year.

Purchases

Buying of goods by the trader for selling them to his customers is known as purchases. As the trade is buying and selling of commodities purchase is the main function of a trade. Here, the trader gets possession of the goods which are not for own use but for resale. Purchases can be of two types. viz, cash purchases and credit purchases. If cash is paid immediately for the purchase, it is cash purchases, If the payment is postponed, it is credit purchases.

Sales

When the goods purchased are sold out, it is known as sales. Here, the possession and the ownership right over the goods are transferred to the buyer. It is known as. 'Business Turnover’ or sales proceeds. It can be of two types, viz.,, cash sales and credit sales. If the sale is for immediate cash payment, it is cash sales. If payment for sales is postponed, it is credit sales.

Stock

The goods purchased are for selling, if the goods are not sold out fully, a part of the total goods purchased is kept with the trader unlit it is sold out, it is said to be a stock. If there is stock at the end of the accounting year, it is said to be a closing stock. This closing stock at the year end will be the opening stock for the subsequent year.

Drawings

It is the amount of money or the value of goods which the proprietor takes for his domestic or personal use. It is usually subtracted from capital.

Losses

Loss really means something against which the firm receives no benefit. It represents money given up without any return. It may be noted that expense leads to revenue but losses do not. (e.g.) loss due to fire, theft and damages payable to others,

Account

It is a statement of the various dealings which occur between a customer and the firm. It can also be expressed as a clear and concise record of the transaction relating to a person or a firm or a property (or assets) or a liability or an expense or an income.

Invoice

While making a sale, the seller prepares a statement giving the particulars such as the quantity, price per unit, the total amount payable, any deductions made and shows the net amount payable by the buyer. Such a statement is called an invoice.

Voucher

A voucher is a written document in support of a transaction. It is a proof that a particular transaction has taken place for the value stated in the voucher. Voucher is necessary to audit the accounts.

Proprietor

The person who makes the investment and bears all the risks connected with the business is known as proprietor.

Discount

When customers are allowed any type of deduction in the prices of goods by the businessman that is called discount. When some discount is allowed in prices of goods on the basis of sales of the items, that is termed as trade discount, but when debtors are allowed some discount in prices of the goods for quick payment, that is termed as cash discount.

Solvent

A person who has assets with realizable values which exceeds his liabilities is insolvent.

Insolvent

A person whose liabilities are more than the realizable values of his assets is called an insolvent.