Basic Accounting Terms

- **Business Transaction** –A business transaction is a financial event between two or more parties. It involves an exchange of goods, services or money and gets recorded in the books of accounts for the organisations involved.
- **Capital:** It refers to the amount invested by the owner in a business. The amount invested could be in the form of cash, goods, etc.
- **Drawing:** Any cash or goods withdrawn by the owner for personal use made out of business funds are known as drawings.
- **Liabilities (Non-Current and Current)** –Current Liabilities are the amount due to the creditors of a business that has to be paid back within twelve months. Non-Current Liabilities are the long-term obligations of a company that are not due for payment before a year.
- **Assets (Non-Current and Current)** –Current Assets are the assets that a firm can liquidate within twelve months. Non-Current Assets are the long-term investments of a business that they cannot liquidate within a year.
- **Fixed assets (Tangible and Intangible)** –Tangible Fixed Assets are the long-term investments of a business that have a physical existence. Intangible Fixed Assets are the long-term investments made by a company that doesn't have a physical existence.
- **Income:** It is the difference between revenue and expense.
- **Expense:** It is the amount used in order to produce and sell goods and services.

- **Profit:** It is the excess of total revenue over total expense of a business. Profit =Revenue-Expenses.

- **Loss:** The excess of expenses over related revenue is known as loss. Loss= Expenses-Revenue.

- **Gain:** It is a monetary benefit resulting from events or transactions which are incidental to business like profit on sale of fixed assets.

- **Purchase** –Purchase is the activity of buying an item to either use it in the production of goods and services or resell it to another entity.

- **A purchase return** – It occurs when the company returns goods to the supplier.Purchase return has credit balance.

- **Sales** –Sales is an economic activity where a business exchanges goods or services with another entity for money. It is the primary source of revenue for any organisation.

- **Sales return-** It is when customer returns the goods to the company. Sales return carries debit balance.

- **Goods** –Goods are the items that a company manufactures to sell to another entity in exchange for money. When an organisation buys goods, it is known as purchases, and when it sells goods, it is known as sales.

- **Stock** –A stock is a financial instrument that represents the part ownership of a company. Organisations use this instrument to raise capital for their business.

- **Debtor** –A debtor is an individual or entity that owes money to a business. Companies treat it as an asset because they will get money from them in the near or distant future.

- **Creditor** –A creditor is an individual or entity to whom a business owes money. Companies treat it as a liability because they will have to pay them in the near or distant future.
- **Voucher** –A Voucher is an internal document that a company uses as supporting evidence for accounting entries. Businesses treat it as a redeemable transaction bond as it has a monetary value and is helpful in specific cases.
- **Discount (Trade Discount and Cash Discount)** –A Trade Discount is a discount that a seller can offer to the buyer by reducing the price of an item. It helps to increase sales of a product, and it doesn't get recorded in the accounting books. A Cash Discount is a discount that a seller can offer to the buyer at the time of payment by reducing the invoice price of an item. It helps to ensure timely payment for a product, and it gets recorded in the accounting books.
- **Prepaid** - Prepaid expenses are paid in advance in the current year but the expenses belong to the next year. Prepaid expenses are shown on the asset side of the balance sheet.
- **Outstanding** -Outstanding expenses occur in the current year but are paid in the next year. Outstanding expenses are shown on the liability side of the balance sheet.
- **Opening Stock** – It is the amount and value of materials that a company has available for sale or use at the beginning of an accounting period.
- **Closing stock-** It is referred to as the amount of unsold goods that remain with the business on a given date. In other words, it can be said that these are inventory which are in business and are waiting to be sold.
- **Bad Debt**-Bad debt is a reality for businesses that provide credit to customers, such as banks and insurance companies.

- **Bad Debt Provision**-*Planning for this possibility by estimating the amount of uncollectible loans is called bad debt provision and can enable companies to measure, communicate, and prepare for financial losses.*

- **Financial Accounting**

  L.H.S = Debit (Dr.)

  R.H.S = Credit (Cr.)

- **Stepes Involved In Preparing Account:**

  - ✔ *Preparation Of Journal*
  - ✔ *Preparation Of Ledger*
  - ✔ *Preparation Of Trial Balance*
  - ✔ *Preparation Of Trading and Profit And Loss Account*
  - ✔ *Preparation Of Balance Sheet*