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SUBJECT:- TALLY ERP - 9

Chapter 2 Basic Accounting Terms

- 1) **Business Transaction** :- The term "Business Transaction" means a financial transaction or event entered into by the parties and recorded in the books of accounts. It is a financial event, which can be expressed in terms of money and brings change in the financial position of an enterprise.

There are two types of Transaction.

- a) **Cash Transaction** :- When the amount is transacted immediately on entering in to a transaction, it is a Cash Transaction.
- b) **Credit Transaction** :- When the amount is not transacted immediately and promise to pay later, it is a Credit Transaction.

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- 2) **Account :-** Account is a summarised record of transactions relating to a particular head at one place.
 - 3) **Capital :-** Capital is the amount invested by the proprietor or partner in the business. It may be in the form of money or assets having money value. It is a liability of the business towards the proprietor or partner.
 - 4) **Drawings :-** it is the amount withdrawn or goods taken by the proprietor for his personal use. Goods so taken by the proprietor are valued at purchase cost. Drawings reduce the investment (or capital) of the owners.
 - 5) **Liabilities :-** liabilities mean the amount owed (payable) by the business to outsiders and to the proprietors.
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i) There are two types of liabilities.

- a) **Current Liabilities (short term liabilities) :-** These are those liabilities which are payable within a year. Example of current liabilities are creditors , bills payable , short term loans , etc.

b) **Non – Current Liabilities (Long term liabilities) :-**

Long term liabilities are those liabilities which are payable after a longer period, (more than a year). Examples of long term liabilities are long term loans , debentures, equity shares etc.

6) **Assets** : - Assets are property or legal rights owned by an individual or business to which money value can be attached. In other words anything which will enable the firm to get cash or a benefit in the future, is an assets. Examples of assets are land , building , machinery , furniture , stock , debtors , cash and bank balances, etc.

i) **There are two types of assets.**

a) **Current assets** : - Current assets are those assets which are retained in the business with the purpose to convert them into cash within a short period say, one year. For example goods are purchased with a purpose to resale and earn profit.

b) **Non Current assets(Fixed Assets)** :- Fixed assets are those assets which are acquired not with the purpose to resale but to facilitate business operations and increase the earning capacity of the business by employing them. Examples of

fixed assets are land , building , machinery ,
computers , vehicles , furniture , etc.

(1) **There are two types of Fixed assets**

(a) **Tangible Assets :-** Tangible assets are those assets which have physical existence , they can be seen and touched. Examples of tangible assets are land , building , machinery , computer , furniture , goods ,etc.

(b) **Intangible Assets :-** intangible assets are those assets which do not have physical existence , the cannot be seen and touched Examples of intangible assets are patents , goodwill ,trademark , copyrights etc.

7) **Receipts :** - Receipt is the amount received for selling assets , goods and services.

i) **There are two types of receipts.**

a) **Capital Receipts :-** It is the amount received for selling assets. Examples are : Sale of machinery , building , furniture , etc.

b) **Revenue Receipts :-** It is the amount received against sale of goods or services. In other words, it is a receipt on account of business transactions.

8) **Expenditure** :- Expenditure is the amount spent or liability incurred to get the goods , assets or services.

i) **There are two types of Expenditure**

a) **Capital Expenditure**:- It is the expenditure incurred to acquire assets or improving the existing assets which will increase the earning capacity of the business, i.e., will give benefit to the business in more than one accounting year. Examples are purchase of machinery to manufacture goods, purchase of furniture or computers to carry on business.

b) **Revenue Expenditure**:- Revenue Expenditure is the amount spent to purchase goods and services that are consumed during the accounting period. Revenue expenditure does not increase the earning capacity but it maintains the earning capacity in the current year.

9) **Expense** :- It is the cost incurred for generating revenue. Example :- wages , rent , Electricity bill.

i) **There are Four types of Expenses**

a) **Prepaid Expense**:- It is an expense that has been paid in advance and the benefit of which will be available in the following year or years,

Example :- advance rent, advance school fee , etc.

b) **Outstanding Expense:-** It is an expense that has not been paid but the benefit thereof has already been availed or example, an audit has been conducted by a chartered accountancy firm against which audit fee of 20,000 is to be paid. It means a liability of 20,000 has been incurred, which is yet to be paid. It is termed as Outstanding Expense.

c) **Direct expenses :-** Direct expenses are directly related to the production of the product. For Example :- Wages , Factory rent , Cost of raw material , Fuel , etc.

d) **Indirect expenses:-** Indirect expenses are not directly related to the production of the product. For Example :- salary , Telephone bills , printing , stationery, etc.

10) **Income :-** Income is the profit earned during a period of time.

$$\text{Income} = \text{Revenue} - \text{Expenses}$$

11) **Purchases :-** This term is used for purchase of goods for resale.

i) There are two types of purchase

- a) **Cash Purchases :-** Goods purchased for cash are termed as Cash Purchases.
- b) **Credit Purchases :-** goods purchased on credit are termed as Credit Purchases.

12) **Sales :-** The term is used for sale of goods that are dealt with by the firm.

i) There are two types of sales

- a) **Cash Sales :-** When goods are sold for cash, they are termed as Cash Sales.
- b) **Credit Sales :-** When goods are sold on credit, they are termed as Credit Sales.

13) **Purchases Return :-** Goods purchased may be returned due to any reason, say, they are not as per specifications or are defective. Goods returned are known as Purchases Return or Returns Outward.

14) **Sales Return:-** Goods sold when returned by the purchaser are termed as Sales Return or Returns Inward.

15) **Stock** :- Stock is the tangible asset held by an enterprise for the purpose of sale in the ordinary course of business.

i) There are two types of stock

- a) **Opening stock** :- Opening Stock is the stock-in-hand in the beginning of the accounting year.
- b) **Closing Stock** :- Closing Stock is the stock-in-hand at the end of the accounting period.

16) **Trade Receivable** :- It is the amount receivable for the sale of goods in ordinary course of business.

i) There are two Classifications.

- a) **Debtor** :- A person who owes amount to the enterprise on account of credit sales of goods or services is called a Debtor. For example, when goods are sold to a person on credit that person is called a Debtor because he owes the amount to the enterprise. The amount due is known as debt.
- b) **Bill Receivable** :- Bill Receivable means a Bill of Exchange accepted by a debtor, the amount of which will be received on the specified date.

17) **Trade Payable :-** It is the amount payable for purchase of goods or services in ordinary course of business.

i) **There are two Classifications.**

a) **Creditor :-** A person to whom an enterprise owes amount on account of credit purchases of goods or services is called a Creditor. For example, Mohan is a Creditor of a firm when goods are purchased on credit from him.

b) **Bill Payable :-** Bill Payable means a Bill of Exchange, the amount of which will be payable on the specified date.

18) **Goods :-** Goods are the physical items of trade. It is a term that applies to all the items making up the sales or purchases of a business.

19) **Cost of Goods Sold :-** The direct cost attributable to the production of goods and services.

20) **Book Value :-** The amount at which an item appears in the books of account.

21) **Cost :-** It is the amount of expenditure on a specified product or article.

22) **Voucher :-** Voucher is an evidence of a business transaction. Examples of voucher are Cash Memo, Invoice or Bill, Receipt, Debit/Credit Notes etc.

23) **Entry:-** A Transaction or event when recorded in the books of accounts is called an entry.

24) **Discount :-** When customers are allowed any type of reduction in the prices of goods by the business, or from the amount paid by the customers is called Discount.

i) **There are two types of discount**

a) **Trade Discount :-** Trade Discount is the rebate allowed by the seller on the basis of sales.

b) **Cash Discount :-** Cash Discount is the rebate allowed for timely payment of due amount.

25) **Proprietor :-** The person who makes the investment and bears all the risks connected with the business is called the proprietor.

26) **Depreciation: -** Depreciation is a fall in the value of an asset because of usage or with passage of time or obsolescence or accident.

27) **Bad Debt:-** Bad Debt is the amount that has become irrecoverable.

28) **Insolvent:-** Insolvent is a person or enterprise which is not in a position to pay its debts.

29) **Solvent:-** Solvent is a person or enterprise which is in a position to pay its debts.

30) **Balance Sheet :-** It is a statement of the financial position of an individual or enterprise as at a given date, which exhibits its assets, liabilities, capital, reserves and other account balances at their respective book values.

