BASIC ACCOUNTING TERMS

- **ENTITY**- An economic unit which perform economic activities in order to fulfill its objectives is called entity.

- **EVENT**- It means happening or occurrence as a result of transaction or transactions and which bring change in the financial position of organization.

- **TRANSACTIONS**- Any economic event of the business which can be expressed in terms of money and brings change in its financial position in terms of change in value of assets , liability and capital. In transaction there will be an exchange in which one party receives and other scarifies. Examples : sale and purchase of goods, purchase of fixed assets, payment of dividend. Transactions between two independent business unit called external transactions and with in same business units are called internal transaction.

BASIC ACCOUNTING TERMS

- **Assets-** Assets are the economic resource of business or we can say assets are the property owned by the entity(enterprise, organization or individual) to get benefit in future. Following are the various types of assets.
- **Fixed Assets-** Fixed assets are those assets which are acquired/ purchase for the purpose of increasing profit earning capacity of business and are purchase not for sale purpose. They will remain in the business till the business binds up. For example land and building, plant, machinery, furniture etc .It may be categorized in to tangible assets and intangible assets.

BASIC ACCOUNTING TERMS

Tangible Assets- Tangible assets are those assets which have physical existence or we can say which can be seen or touched. For example: land, building, plant, machinery, computer etc.

Intangible Assets- Intangible assets are those assets which do not have any physical form, i.e. they can not be seen or touched. For example –goodwill, trademarks, patents, computer software etc.

Current Assets- current assets are those assets of a business which are held for short-term with purpose to sell or convert them in to cash. Example of current assts are unsold goods, debtors , bills receivable , bank balance etc.

BASIC ACCOUNTING TERMS

- **Liquid Assets-** Liquid assets are part of the current assets that can be converted in to cash in a short period of time. It include all current assets except closing stock and prepaid expenses.
- **Wasting Assets-** such assets whose output and value decreases with production and extraction .For example- Patents, Coalmines, oil wells etc.
- **Fictitious Assets-** Such assets which have no real value but technically they are treated as assets, are known as Fictitious assets .For example- preliminary expenses, Discount on issue of shares and debenture, Huge advertising expenses etc.

BASIC ACCOUNTING TERMS

- **Liabilities:** Liabilities are obligations or debts that an Business has to pay at some time in the future. They represent creditors' claims on the firm's assets. Both small and big businesses find it necessary to borrow money at one time or the other, and to purchase goods on credit. Super Mart, for example, purchases goods for ` 20,000 on credit for a month from Dominos food Products on March 20, 2021. If the balance sheet of Super Mart is prepared as at March 31, 2021, Dominos Food Products will be shown as creditors on the liabilities side of the balance sheet. If Super Mart takes a loan for a period of five years from U.P. financial Corporation, this will also be shown as a liability in the balance sheet of Super Mart. Liabilities are classified as current , Fixed or long term ,Internal and contingent.

BASIC ACCOUNTING TERMS

- **CURRENT LIABILITIES-** Current liabilities are those liabilities which are payable with in year. Examples are- Creditors, bank overdraft, bills payables, short term loans etc.
- **FIXED or LONG-TERM LIABILITIES-** These are liabilities which are payable after along period of time (generally more then one year).Examples are- Long –term loans, Debentures etc.
- **INTERNAL LIABILITIES-** It is the liability of business /firm towards the owner of the business. it is claim of the owner against the assets of the Organization. It is also termed as “Capital” and shown as liability of business.
- **CONTINGENT LIABILITIES-** Contingent liabilities are based on future events. These are those liability which are not liability for today but it becomes liability in future. For Example- Guarantees undertaken, Case pending in the court etc.

BASIC ACCOUNTING TERMS

- **CAPITAL-** Capital is the amount which the owner has invested initially to start a business or further production and claim for it. For the business it is liability towards the owner. It is so because the owner is separate and distinct from the business. Capital is also known as owner's equity or net worth. Owner's equity means Owner's claim against the assets of the business. It always equal to assets less liability.ie
- Capital = Assets – Liabilities
- Capital are classified as following:
- **FIXED CAPITAL-** Capital invested for acquiring fixed assets like Building, Machinery, furniture etc. is called fixed capital.
- **FLUUCTUATING CAPITAL-** Capital used for acquiring current assets like Stock, Short term investment is called fluctuating capital.
- **WORKING CAPITAL-** Capital which is required to perform day to day operation of business is known as working capital.

BASIC ACCOUNTING TERMS

- **DRAWINGS-** Cash or goods withdrawn by the owner/ proprietor from the business for his personal use is called drawings. For example if the owner purchase Audi for personal use, or he takes furniture from the business for his home then it is called drawings. Drawings reduces the capital of the owner.

BASIC ACCOUNTING TERMS

- **DEBTORS-** Debtors generally take place due to credit sale of goods and services. So debtor is the person who owes money to the business; for example goods worth Rs.50,000 are sold to amit on credit then amit will be debtors of the business because he has to give money to the business. The amount due from him is called debt.

- **CREDITORS-** Creditors generally take place due to credit purchase of goods and services. So creditor is person who has to take money from business; for example amit is a creditor of a firm when goods are purchase from him on credit.

BASIC ACCOUNTING TERMS

PURCHASES- Purchase mean purchase of goods for resale or for manufacturing of product for further selling. Purchase include both cash and credit Purchase.

PURCHASE RETURN- Goods purchased may be return due to any reason like not according to sample, specification or due to defect then it is called purchase return or **return outwards**.

SALE- Sale means sale of those commodities/ goods in which a business deals. Sale may be credit sale or cash sale.

SALES RETURN- When sold goods are returned by purchaser due to any reason then it is called sales return or **return inward**.