Subject: Accountancy
Class: 11Com
Chapter: 01-Introduction to Accounting
Topic: Basic accounting terms

1. **Business Transaction:**

An Economic activity that affects financial position of the business and can be measured in terms of money e.g., purchase of goods for use in business.

2. **Account**: Account refers to a summarized record of relevant transactions of particular head at one place. All accounts are divided into two sides. The left side of an account is called debit side and the right side of an account is called credit side.

3. **Capital**: Amount invested by the owner in the firm is known as capital. It may be brought in the form of cash or assets by the owner.

4. **Drawings**: The money or goods or both withdrawn by owner from business for personal use is known as drawings. Example: Purchase of car for wife by withdrawing money from business.

5. **Assets**: Assets are valuable and economic resources of an enterprise useful in its operations. Assets can be broadly classified as:

1. **Current Assets**: Current Assets are those assets which are held for short period and can be converted into cash within one year. For example: Cash, Debtors, stock etc.
2. **Non-Current Assets**: Non-Current Assets are those assets which are hold for long period and used for normal business operation. For example: Land, Building, Machinery etc.

Non-Current Assets classified into:

a. **Tangible Assets**: Tangible Assets are those assets which have physical existence and can be seen and touched. For Example: Furniture, Machinery etc.

b. **Intangible Assets**: Intangible Assets are those assets which have no physical Existence and can be felt by operation. For example: Goodwill, Patent, Trade mark etc.

6. **Liabilities**: Liabilities are obligations or debts that an enterprise has to pay after some time in the future.

Liabilities can be classified as:

1. **Current Liabilities**: Current Liabilities are obligations or debts that are payable within a period of one year. For Example: Creditors, Bill Payable etc.
2. **Non-Current Liabilities**: Non-Current Liabilities are those obligations or debts that are payable after a period of one year. Example: Bank Loan, Debentures etc.

7. **Receipts:**

1. **Revenue Receipts**: Revenue Receipts are those receipts which are occurred by normal operation of business like money received by sale of business products.

2. **Capital Receipts**: Capital Receipts are those receipts which are occurred by other than business operations like money received by sale of fixed assets.

8. **Expenses**: Costs incurred by a business for earning revenue are known as expenses. For example: Rent, Wages, Salaries, interest etc.

9. Expenditure: Spending money or incurring a liability for acquiring assets, goods or services is called expenditure. The expenditure is classified as :

1. **Revenue Expenditure**: If the benefit of expenditure is received within a year, it is called revenue expenditure. For Example: rent, Interest etc.
2. **Capital Expenditure**: If benefit of expenditure is received for more than one year, it is called capital expenditure. Example: Purchase of Machinery.
3. **Deferred Revenue Expenditure**: There are certain expenditures which are revenue in nature but benefit of which is derived over number of years. For Example: Huge Advertisement Expenditure.

10. Profit: The excess of revenues over its related expenses during an accounting year is profit. Profit = Revenue – Expenses

11. Gain: A non-recurring profit from events or transactions incidental to business such as sale of fixed assets, appreciation in the value of an asset etc.

12. Loss: The excess of expenses of a period over its related revenues is termed as loss.
Loss = Expenses – Revenue

13. Goods: The products in which the business deal in. The items that are purchased for the purpose of resale and not for use in the business are called goods.

14. Purchases: The term purchases is used only for the goods procured by a business for resale in case of trading concerns it is purchase of final goods and in manufacturing concern it is purchase of raw materials. Purchases may be cash purchases or credit purchases.

15. Purchase Return: When purchased goods are returned to the suppliers, these are known as purchase return.

16. Sales: Sales are total revenues from goods sold or services provided to customers. Sales may be cash sales or credit sales.

17. Sales Return: When sold goods are returned from customer due to any reason is known as sales return.

18. Debtors: Debtors are persons and/or other entities to whom business has sold goods and services on credit and amount has not received yet. These are assets of the business.

19. Creditors: If the business buys goods/services on credit and amount is still to be paid to the persons and/or other entities, these are called creditors. These are liabilities for the business

20. Bill Receivable: Bill Receivable is an accounting term of Bill of Exchange. A Bill of Exchange is Bill Receivable for seller at time of credit sale.

21. Bill Payable: Bill Payable is also an accounting term of Bill of Exchange. A Bill of Exchange is Bill Payable for purchaser at time of credit purchase.

22. Discount: Discount is the rebate given by the seller to the buyer. It can be classified as :

1. **Trade Discount**: The purpose of this discount is to persuade the buyer to buy more goods. It is offered at an agreed percentage of list price at the time of selling goods. This discount is not recorded in the accounting books as it is deducted in the invoice/cash memo.
2. **Cash Discount**: The objective of providing cash discount is to encourage the debtors to pay the dues promptly. This discount is recorded in the accounting books.

23. Income: Income is a wider term, which includes profit also. Income means increase in the wealth of the enterprise over a period of time.

24. Stock : The goods available with the business for sale on a particular date is known as stock.

25. **Cost** : Cost refers to expenditures incurred in acquiring manufacturing and processing goods to make it saleable.
26. **Voucher**: The documentary evidence in support of a transaction is known as voucher. For example, if we buy goods for cash we get cash memo, if we buy goods on credit, we get an invoice, when we make a payment we get a receipt.
27. **Goods and Service Tax (GST)** : GST is an indirect tax which is levied on the supply of goods and service.