BASIC ASPECTS OF FINANCIAL ACCOUNTING

Definition of accounting: "the art of recording, classifying and summarizing in a significant manner and in terms of money , transactions and events which are, in part at least of a financial character and interpreting the results there of"

Book keeping: It is mainly concerned with recoding of financial data related business operations in a significant and orderly manner.

Branches of accounting

a. Financial accounting
b. Management accounting

Concepts of accounting

Separate entity concept
going concern concept
Money measurement concept
Cost concept
Dual aspect concept
accounting period concept
Periodic matching of costs and revenue concept
Realization concept

Conventions of Accounting

A .Conservatism B .Disclosure
C .Consistency D .Materiality

Systems of book keeping

1. Single entry system
2. Double entry system

Systems of accounting

1. Cash system
2. mercantile system

Principles of accounting

Personal A/c
Debit the receiver.
Credit the giver.
Real A/c
Debit what comes in.
Credit what goes out.
Nominal A/c
Debit all expenses and losses.
Credit all gains and incomes.

Meaning of journal: journal means chronological record of truncation

Meaning of ledger is a set of accounts all accounting of the business enterprise whether real, normal personal

Posting: it means transferring the debit and credit items from the journal to their respective accounting in the ledger.

Trial balance: A statement containing the various ledgers balance on a particular date.

Credit note: The customer when returns the good get credit for the value of the goods returned. A credit note is sent to him intimating that a/c has been credit with the value the goods returned.

Debit note: When the goods are returned to the supplier, a debit note is sent to him indicating that his a/c has been debited with the amounting mentioned in the debit note.

Contra entry: which accounting entry is recounting on both the debit and credit side of the cash book is known as the contra entry.

Petty cash book: Petty cash is maintained by business to record petty cash expenses of the business such as printing & stationary, postage and cartage etc.

Promisory note: An instrument in writing containing an unconditional undertaking signed by the maker, to pay certain sum of money only to or to the order of a certain person or to the barer of the instrument.

Cheque: A bill of exchange drawn on a specified banker and payable on demand.

Stale Cheque: A stale cheque means not valid of cheque that means more than six months the cheque is not valid.

Bank Reconciliation Statement: It is a statement reconciling the balance as shown by the bank pass book and the balance as shown by the cash book.

Matching Concept: It requires proper matching of expenses with the revenues.

Capital Income: An income which does not grow of pertain to the running of a business proper

Revenue Income: The income which arises out of and in the course of the regular business transaction of the concern.

Capital Exp.: An expenditure which has been incurred for the purpose of obtaining a long term advantage for the business.

Revenue Exp.: An expenditure that incurred in the course of regular business transaction of concern.

Differed revenue Exp: An expenditure which is incurred during an accounting period but is applicable further period also. E.g. Heavy advertisement.

Bad Debts: The amount lost from debtors to whom the goods were sold on credit.

Depreciation: Gradual and Permanent decrease in the value in of asset due to wear and tear, technological changes, laps of time and accident.

Fictitious asset: These are assets not represented by tangible possession or property.

Intangible asset: The assets which is not having the physical appearance and having the real value.

Accrued income: Income has been earned by the business during accounting year but which has not yet been due and, therefore, has not been received.

Outstanding Income: Income which has become due during the accounting year but which has not so far been received by the firm.

Suspense account: An account to which the difference in the trail balance has been put temporarily.

Depletion: It implies removal of an available but not replaceable source, Such as extracting coal from a coal mine.

Amortization: The process of writing of intangible assets is termed as amortization.

Dilapidations: Damage done to a building or other property during tenancy.

Capital employed: Sum of total long term funds employed in the business. (I.e. Share capital+ Reserves& Surplus+ Long term loans- (Non business assets+ fictitious assets)

Equity shares: Those share which are not having pref. rights.

Pref. shares: Those share which are having pref. rights

- Pref. rights in respect of fixed dividend.
- Pref. rights to repayment of capital even at winding up.

Leverage: A force applied at a particular point to get the desired result.

Operating leverage: the operating leverage takes place when a changes in revenue greater changes in EBIT.

Financial leverage: it is nothing but a process of using debt capital to increase the rate of return on equity.

Combine leverage: it is used to measure of the total risk of the firm = operating risk + financial risk.

Joint venture: A joint venture is an association of two or more the person who combined for the execution of a specific transaction and divide the profit or loss their Of an agreed ratio.

Partnership: partnership is the relation b/w the persons who have agreed to share the profit of business carried on by all or any of them acting for all.

Factoring: It is an arrangement under which a firm receivers advances against the receivables, from a financial institutions.

Capital reserve: The reserve which transferred from the capital gains.

General reserve: The reserve which is transferred from normal profits of the firm.

Free cash: The cash not for any specific purpose free from any encumbrance like surplus.

Minority interest: It refers to the equity of the minority shareholders in a subsidiary company.

Capital receipts: Non-recurring receipts from the owner of the business or lender of the money creating a liability to either of them.

Revenue receipts: A recurring receipt against sale of goods in the normal course of business and which generally the result of the trading activities.

Company: A company is an association of many persons who contribute money or money's worth to common stock and employs it for a common purpose. The company stock so contributed is denoted in money and is the capital of company.

Types of Company:

1. Statutory companies
2. Government companies
3. Foreign companies
4. Registered companies
   I. Comp. limited by shares
   II. Comp. limited by guarantee
   III. Unlimited companies
   IV. Private company
   V. Public company

Private company: A private Co. is which by its AOA

- Restrict the right of the members to transfer of shares
- Limited no of members(50)
- Prohibits any invitation to the public to subscribe for its shares or debentures.

Public company: The articles of association of which does not contain the requisite restrictions to make it a private limited company.

Characteristics of company:

- Voluntary association
- Separate legal entity
- Free transfer of shares
- Limited liability
- Common seal
- Perpetual existence

Formation of company:

- Promotion
- Incorporation
- Commencement of business

Equity share capital: The total sum of equity shares is called Equity share capital.

Authorized share capital: It is the maximum amount of share capital which a company can raise for the time being.

Issued capital: It is the part of authorized capital which has been allotted to the public for the time being.

Subscribed capital: It is the part of issued capital which has been allotted to public.

Called up capital: The portion of subscribed capital which has been called up by the company.

Paid up capital: It is the portion of the called up capital against which payment has been received.

Debentures: A certificate issued by a company under its seal acknowledging a debt due by it to its holder.

Cash profit: A profit occurred from cash sales.

Deemed public limited company: A private company is a subsidiary company to public company it satisfies the following terms/conditions

- Having minimum share capital 5 lakhs.
- Accepting investment from public
- No restriction of the transferable of shares
- No restriction of no. of members

- Accepting deposits from the investors

Secret reserves: secrete reserves are the existence of which does not appear on the face of balance sheet. In such a situation, net asset position of the business is stronger than the disclosed by the balance sheet.

The reserves are,

1. Excessive dep. of an asset, excessive over-valuation of a liability
2. Complete elimination of an asset, or under valuation of an asset.

Provision: Any amount written off or retained by way of providing depreciation, renewals or diminutions in the value of asset or retained by way of providing for any known liability of which the amount cannot be determined with substantial accuracy.

Reserve: The provision in excess of the amount considered necessary for the purpose it was originally made is also considered as reserve,

1. Provision is charge against profits while reserves is an appropriation of profits
2. Creation of reserve increase proprietor's fund while creation of provisions decrease his funds in the business.

Reserve fund: Means such reserve against which clearly investment etc.

Undisclosed reserve: Sometimes a reserve is created but its identity is merged with some other a/c or group of accounts so that the existence of the reserve is not known such reserve is called an undisclosed reserve.

Finance management: It deals with procurement of funds and their effective utilization in business.

Objectives of financial management:

1. Profit maximization: The finance manager has to make his decisions in a manner so that the profits of the concern are maximized.
2. Wealth maximization: The objective of a firm should be to maximize its value or wealth, or value of a firm is represented by the market price of its common stock.

Functions of financial manager:

- Investment decision
- Dividend decision
- Finance decision
- Cash management decisions
- Performance evolution
- Market impact analysis

Time value of money: Worth of a rupee received today is different from the worth of a rupee to be received in future.

Capital structure: The mix of sources from where the long- term funds required in a business may be raised, in other words, it refers to the proportion of debt, preference capital and equity capital.

Optimum capital structure: Capital structure is optimum when the firm has a combination of equity and debt so that the wealth of the firm is maximum

Financial breakeven point: It denotes the level at which a firm's EBIT is just sufficient to cover interest and preference dividend.

Capital budgeting: It involves the process of decision making with regard to investment in fixed assets or decision making with regard to investment of money in long term projects.

Payback period: Payback period represents the time period required for complete recovery of the initial investment in the project.

ARR: Accounting or Average Rate of Return means the average annual yield on the project.

NPV: The net present value of an investment proposal is defined as the sum of the present values of all future cash inflows less the sum of the present values of all cash outflows associated with the proposal.

Profitability index: Where different investment proposal each involving different initial investments and cash inflows are to be compared.

IRR: Internal rate of return is the rate at which the sum total of discontinued cash inflows equal to the discontinued cash out flows.

Treasury management: The efficient management of liquidity and financial risk in business.

Concentration banking: It means identify locations or places where customers are placed and open a local bank a/c in each of these locations and open local collection center.

Marketable securities: Surplus cash can be invested in short term instruments in order to earn interest.

Ageing schedule: In an ageing schedule the receivables are classified according to their age.

Maximum Permissible Bank Finance: It is the maximum amount that banks can lend a borrower towards his working capital requirements.

Commercial paper: CP is a short term promissory note issued by a company, negotiable by endorsement and delivery, issued at a discount on face value as may be determined by the issuing company.

Bridge finance: It refers to the loans taken by the company normally from commercial banks for a short period pending disbursement of loans sanctioned by the financial institutions.

Venture capital: It refers to the financing of high risk ventures promoted by new qualified entrepreneurs who require funds to give shape to their ideas.

Debt securitization: It is a mode of financing, where in securities are issued on the basis of a package of assets (Called asset proof).

Lease financing: Leasing is a contract where one party (owner) purchases assets and permits its views by another party (lessee) over a specific period.

Trade credit: It represents credit granted by suppliers of goods, in the normal course of business.

Over draft: Under this facility a fixed limit is granted within which the borrower allowed to overdraw from his account.

Cash credit: It is an arrangement under which a customer is allowed an advance up to certain limit against credit granted by bank.

Clean overdraft: It refer to an advance by way of overdraft facility, but not back by any tangible security.

Share capital: The sum of the nominal value of shares of a company is called share capital.

Funds flow statement: It is the statement deals with the financial resources for running business activities. It explains how the funds obtained and how they used.

Sources of funds:

- Internal sources: Funds from operations is the only internal sources of funds and some important points added to it they do not result in the outflow of funds
  1. Depreciation on fixed assets
  2. Preliminary expenses or good will written off, Loss on sale of fixed assets.

Deduct the following items as they do not increase the funds;
Profit on sale of fixed assets
Profit on revaluation of fixed assets

- External sources:
  1. Funds from long term loans
  2. Sale of fixed assets
  3. Funds from increase in share capital

Application of funds:

1. Purchase of fixed assets
2. Payment of dividend
3. Payment of tax liability
4. Payment of fixed liability

ICD (Inter corporate deposits): Companies can borrow funds for a short period.
For example six months or less than six months from any company which have surplus liquidity, such deposits made by one company in another company are called ICD

Certificate of deposit: The CD is a document of title similar to a fixed deposit receipt issued by banks there is no prescribed interest rate on such CDs it is based on the prevailing market conditions.

Public deposits: It is very important source of short term and medium term finance .The Company can accept PD from members of the public and shareholders. It has the maturity period of 6months to 3years.

Euro issues: The euro issue means that the issue is listed on a European stock Exchange .The subscription can come from any part of the world except India.

GDR (Global depository receipts): A depository receipt is basically a negotiable certificate. Dominated in us dollars that represents a non-US company publicly traded in local currency equity shares.

ADR (American depository receipts): Depository receipt issued by a company in the USA is known as ADRs. Such receipts are to be issued in accordance with the provisions stipulated by the securities Exchange commission (SEC) of USA like SEBI in India.

Commercial banks: commercial banks extend foreign currency loans for international operations, just like rupee loans. The banks also provided overdraft.

Development banks: It offers long-term and medium term loans including foreign currency loans.

International agencies: International agencies like the IFC, IBRD, ADB, IMFF etc. provide indirect assistance for obtaining foreign currency.

Seed capital assistance: The seed capital assistance scheme is desired by the IDBI for professionally or technically qualified entrepreneurs and persons possessing relevant experience and skills and entrepreneur traits.

Unsecured loans: It constitutes a significant part of long–term finance available to an enterprise.

Cash flow statement: It is a statement depicting change in cash position from one period to another.

Source of cash:

Internal sources

(a) Depreciation
(b) Amortization
(c) Loss on sale of fixed assets
(d) Gains from sale of fixed assets
(e) Creation of reserves

External sources

(a) Issue of new shares
(b) Raising long term loans
(c) Short term borrowings
(d) Sales of fixed assets, investments.

Application of cash:

(a) Purchase of fixed assets
(b) Payment of long- term loans
(c) Decrease in deferred payment of liabilities
(d) Payment of tax, dividend
(e) Decrease in unsecured loans and deposits

Budget: It is a detailed plan of operations for some specific future period. It is an estimate prepared in advance of the period it which it applies.

Budgetary control: It is the system of management control and accounting in which all operations are forecasted and so far as possible planned ahead, and the actual result compared with the forecasted and planned ones.

Cash budget: It is a summary statement of firm's expected cash inflow and out flow over a specific period.

Master budget: A summary of budget made for the purpose of purpose of presenting in the one report that highlights of the budget.

Fixed budget: It is a budget which is designed to remain unchanged irrespective of the level of activity actually attained.

Zero based budgeting: It is a management tool which provides a systematic method for evaluating all operations and programs, current of new allows for budget reductions and expansions in a rational manner and allows reallocation of source from low t high priority programs.

Goodwill: The present value of firm's anticipating excess earnings.

BRS: It is a statement of reconciling the balance as shown by the pass book and the balance shown by cash book.

Objectives of BRS: The objectives of preparing such a statement is to know the causes of difference between the two balances and pass necessary corrections or adjusting entries in the books of the firm.

Responsibilities of accounting: It is a system of control by delegating and locating the responsibilities for costs.

Profit centre: A centre whose performance is measured in terms of both the expenses incurred and revenue it earns.

Cost centre: A location, person or item of equipment for which cost may be ascertained and used for the purpose of cost control.

Cost: The amount of expenditure incurred on to a given thing

Cost accounting: It is thus concerned with recording, classifying, and summarizing costs for determination of cost of products or services, planning, controlling and reducing such costs and furnishing of information to management for decision making.

Elements of costs:

- Material
- Labour
- Overheads

Components of total costs:

a) Prime cost
b) Factory cost
c) Cost of production
d) Total cost

Prime cost: It consists of direct material, direct labour and direct expenses. It is also known as basic or first or flat cost.

Factory cost: It comprises prime cost, in addition factory overheads which include cost of indirect material, indirect labour and indirect expenses in the factory. This cost is also known as works cost or production cost or manufacturing cost.

Cost of production: In office and administrative overheads are added to factory cost, office cost is arrived at.

Total cost: Selling and distribution overheads are added to total cost of production to get the total cost or cost of sales.

Cost unit: A unit quantity of product, service or time in relation to which costs may be ascertained or expressed.

Methods of costing:

a. Job costing
b. Contract costing
c. Process costing
d. Operation costing
e. Operating costing
f. Unit costing
g. Batch costing

Techniques of costing:

- Marginal costing
- Direct costing
- Absorption costing
- Uniform costing

Standard costing: A system under which the cost of the product is determined in advance on certain predetermined standards.

Marginal costing: It is a technique of costing in which allocation of expenditure to production is restricted to those expenses which arise as a result of production.

Derivative: The product whose value is derived from the value of one or more basic variables of underlying asset.

Forwards: A forward contract is customized contracts between two entities, settlement takes place on a specific date in the future at today's pre agreed price.

Futures: A future contract is an agreement between two parties to buy or sell an asset at a certain time in the future at a certain price.

Options: An option gives the holder of the right to do something. The option holder option may exercise or not.

Call option: A call option gives the holder the right but not the obligation to buy an asset by a certain date for a certain price.

Put option: A put option gives the right but not obligation to sell an asset by a certain date for a certain price.

Option price: The price which the option buyer pays to the option seller. It is also referred as the option premium.

Expiration date: The date which is specified in the option contract is called expiration date.

European date: It is the option at exercised only on expiration date itself.

Basis: Future price – spot price.

Cost of carry: The relation between future prices and spot prices can be summarized in terms of what is known as cost of carry.

Initial margin: the amount must be deposited in the margin a/c at the time of first entered into future contract is known as initial margin.

Maintenance margin: This is somewhat lower than initial margin.

Mark to market: In future market, at the end of each trading day, the margin a/c is adjusted to reflect the investors gain or loss depending upon the future selling price.

Baskets: Basket options are options on portfolio of underlying asset.

Swaps: Swaps are private agreements between two parties to exchange cash flows in the future according to a pre agreed formula.

Impact cost: It is measure of liquidity of market. It reflects the costs faced when actually trading in index.

Heading: Minimizing the risk.

Capital market: It deals with the long term investment funds. It consist of two markets

1. Primary market: Those companies which are issuing new shares in the market. It is also called new issue market.
2. Secondary market: The market where shares buying and selling. In India secondary market is called stock exchange.

Arbitrage: It means purchase and sale of securities in different markets in order to profit from discrepancies. In other words arbitrage is a way of reducing risk of loss caused by price fluctuations of securities held in a portfolio.

Meaning of ratio: Ratios are relationships expressed in mathematical terms between figures which are connected with each other in same manner.

Activity ratio: It is a measure of the level of activity attained a period.

Mutual fund: A mutual fund is a pool of money, collected from investors, and is invested according to certain objectives.

Characteristics of mutual funds:

- ✓ Ownership of MF is in the hands of the investors.
- ✓ MF managed by investment professionals
- ✓ The value of portfolio is updated every day

Advantage of MF to investors:

a. Portfolio diversification.
b. Professional management.
c. Reduction in risk
d. Reduction of transaction costs
e. Liquidity
f. Convenience and flexibility

Net asset value: The value of one unit of investment is called as the net asset value.

Open-ended fund: open ended funds means investors can buy and sell units of fund, at NAV related prices at any time, directly from the fund.

Close ended fund: Close ended funds means it is open for sale to investors for a specific period, after which further sales are closed. Any further transaction for buying the units or repurchasing them, happen, in the secondary markets.

Dividend option: Investors, who choose a dividend on their investments, will receive dividends from the MF, as when such dividends are declared.

Growth option: Investors who do not require periodic income distributions can be choose the growth option.

Equity funds; Equity funds are those that invest predominantly in equity shares of company.

Types of equity funds:

- Simple equity funds
- Primary market funds
- Sectoral funds
- Index funds

Sectoral funds: sect oral funds choose to invest in one or more chosen sectors of the equity markets.

Index funds: The fund manager takes a view on companies that are expected to perform well, and invests in these companies.

Debt funds: The debt funds are those that are pre- dominantly invest in debt securities.

Liquid funds: The debt funds invest only in instruments with maturities less than one year.

Gilt funds: Gilt funds invest only in securities that are issued by the GOVT. and therefore do not carry any credit risk.

Balance funds: Funds that invest both in debt and equity markets are called balanced funds.

Sponsor: Sponsor is the promoter of the MF and appoints trustees, custodians and the AMC with prior approval of SEBI.

Trustee: Trustee is responsible to the investors in the MF and appoints the AMC for managing the investment portfolio.

AMC: Describes Asset Management Company, it is the business face of the MF, as it manages all the affairs of the MF.

R & T Agents: The R&T agents are responsible for the investor serving functions, as they maintain the records of investors in MF.

Custodians: Custodians are responsible for the securities held in the mutual fund's portfolio.

Schemes take over: If an existing MF scheme to arrive at the price.

Meaning of load: Load is a factor that is applied to the NAV of a scheme to arrive at the price.

Market capitalization: Number of shares issues multiplies with market price per share.

Price earnings ratio: The ratio between the share price and the post tax earnings of company is called as price earnings ratio.

Dividend yield: The dividend paid out by the company, is usually a percentage of the face value of a share.

Market risk: It refers to the risk which the investor is exposed to as a result of a fall in the interest rates.

Re-investment risk: It is the risk which an investor has to face as a result of a fall in the interest rates at the time of reinvesting the interest income flows from the fixed income security.

Call risk: Call risk is associated with bonds have an embedded call option in them. This option hives the issuer the right to call back the bonds prior to maturity.

Credit risk: Credit risk refers to the probability that a barrower could default on a commitment to repay debt or band loans.

Inflation risk: Inflation risk refers the change in the purchasing power of cash flows resulting from the fixed income security.

Liquid risk: It refers to the ease with which bonds could be traded in the market.

Drawings: Drawings denotes the money withdrawn by the proprietor from the business for his personal use.

Outstanding income: outstanding income means income which has become due during the accounting year but which has not so far been received by the firm.

Outstanding Expenses: The expenses which have become due during the accounting period for which the final accounts have been prepared but have not been paid.

Closing stock: The term closing stock means goods lying unsold with the businessman at the end of the accounting year.

Accrued income: Accrued income means income which has been earned by the business during the accounting year but which has not yet become due and, therefore, has not been received.

Gross profit ratio: It indicates the efficiency of the production/ trading operations.

$$\frac{\text{Gross profit}}{\text{Net sales}} \times 100$$

Net profit ratio: $\frac{\text{Net profit}}{\text{Net sales}} \times 100$

Return on share holder's fund:

$$\frac{\text{Profit available for equity share holders}}{\text{Ave. equity shareholders fund}} \times 100$$

Earning per equity share:

$$\frac{\text{Profit available for equity share holders}}{\text{Number of equity shares}}$$

Dividend yield ratio:

$$\frac{\text{Dividend per share}}{\text{Market price per share}} \times 100$$

Price earnings ratio:

$$\frac{\text{Market price of share}}{\text{Earning per share}} \times 100$$

Current ratio:

$$\frac{\text{Current assets}}{\text{Current liabilities}}$$

Debt-equity ratio:

$$\frac{\text{Total long-term debt}}{\text{Share holders fund}}$$

Fixed assets ratio:

$$\frac{\text{Fixed assets}}{\text{Long term funds}}$$

Quick ratio:

$$\frac{\text{Liquid assets}}{\text{Current liabilities}}$$

Stock turnover ratio:

$$\frac{\text{Cost of goods sold}}{\text{Average stock}}$$

Debtor's turnover ratio:

$$\frac{\text{Credit sales}}{\text{Average accounts receivable}}$$

Creditor's turnover ratio:

$$\frac{\text{Credit purchases}}{\text{Average accounts Payable}}$$

Working capital turnover ratio:

$$\frac{\text{Net sales}}{\text{Working capital}}$$

Fixed asset turnover ratio:

$$\frac{\text{Net sales}}{\text{Fixed assets}}$$

Pay-out ratio:

$$\frac{\text{Dividend per equity share}}{\text{EPS}} \times 100$$

Overall profitability ratio: It is also called as "Return on Investment" or "Return on capital employed". It indicates the percentage of return on the total capital employed in the business.

$$\frac{\text{Operating profit}}{\text{Capital employed}} \times 100$$

The term capital employed has been given different meanings.

1. Sum of all assets.

2. Sum of long term funds. i.e. Share capital+ reserves& surplus+ long term loans- (Non buss. Assets+ Fictitious assets)

Operating profit means- Profit before interest and tax.

Fixed interest cover ratio:

$$\frac{\text{Income before interest and tax}}{\text{Interest charges}}$$

Fixed dividend cover ratio:

$$\frac{\text{Net profit after interest and tax}}{\text{Preference dividend}}$$

Debt service cover ratio:

$$\frac{\text{Net profit before interest and tax}}{\text{Interest+} \dfrac{\text{Principle payment installment}}{1- \quad \text{Tax rate}}}$$

Proprietary ratio:

$$\frac{\text{Shareholders funds}}{\text{Total tangible assets}}$$

Working capital: The funds available for conducting day to day operations of an enterprise. Also represented by the excess of current assets over current liabilities.

Financial analysis: The process of interpreting the past, present and future financial condition of a company.

Income statement: An accounting statement which shows the level of revenues, expenses and profit occurring for a given accounting period.

Annual report: The report issued annually by a company, to its shareholders, it containing financial statements like trading and profit& loss a/c and balance sheet.

Bankrupt: A statement in which a firm is unable to meet its obligations and hence the assets are surrendered to court for administration.

Lease: Lease is a contract between two parties under the contract, the owner of the asset gives the right to use the asset to the user over an agreed period of the time for a consideration.

Budgeting: The term budgeting is used for preparing budgets and other procedure for planning, coordinating and control of business enterprise.

Capital: The term capital refers to the total investment of company in money, tangible and intangible assets. It is the total wealth of company.

Capitalization: It is the sum of par value of the outstanding stocks and bonds.

Over capitalization: When the business is unable to earn fair rate on its outstanding securities.

Under capitalization: When the business is able to earn fair rate or over rate on its outstanding securities.

Capital gearing: The term capital gearing refers to the relationship between equity and long term debt.

Cost of capital: It means the minimum rate of return expected by its investment.

Cash dividend: The payment of dividend in cash.

Accrued expenses: An expense which has been incurred in an accounting period but for which no enforceable claim has become due to in that period by the enterprises.

Accrued revenue: Revenue which has been earned in an accounting period but in respect of which no enforceable claim has become due, in that period by the enterprise.

Accrued liability: A developing but not yet enforceable claim by a person which accumulates with the passage of time or the receipt of service or otherwise. It may rise from the purchase of services which at the date of accounting have been partly performed and are not yet billable.

Preliminary expenses: Expenditure relating to the formation of an enterprise. There include legal accounting and share issuing expenses incurred for formation of the enterprise.

Appropriation: It is application of profit towards reserves and dividends.

Absorption costing: A method where by the cost is determined, so as to include the appropriate share of both variable and fixed costs.

Marginal cost: The additional cost to produce an additional unit of a product.

Share premium: The excess issue of share price over the fair value. It will be showed with the allotment entry in the journal, it will be adjusted in the balance sheet on the liability side under the head “Reserves& surplus”.

Accumulated Depreciation: The total depreciation charges up to date on depreciable assets.

Investment: Expenditure on assets held to earn income, interest, profit and other benefits.

Capital: The amount invested in an enterprise by its owner.

Deficit: The debit balance in the profit& loss a/c.

Surplus: Credit balance in the profit& loss a/c after providing appropriations, dividend& reserve.