Accounting Terminologies

1. Capital = *It refers to the amount invested by the proprietor in a business enterprise. This amount is increased by the amount of profits earned and amount of additional capital introduced and is decreased by the amount of losses incurred and amount withdrawn. In order to calculate the amount of capital all current assets and fixed assets are added up and external liabilities are deducted out of it.*

2. Drawing = *Any cash or value of goods withdrawn by the owner for personal use or any private payments made out of business funds are called drawings.*

3. Revenue = *Revenue in accounting means the income of a recurring nature from any source. It consists of the amount received from sale of goods and service provided to customers. It also includes receipts of rent, commission, dividend, interest etc. revenue is related with the day to day affairs of the business and should be regular in nature.*
4. Expenses = *Expenses is the cost incurred in producing and selling the goods and services. According to Finney and Miller expense is the cost of use of things or services for the purpose of generating revenue.*

   Following are included in the term expenses:
   1. *Cost of goods sold = It is that cost which can be directly attributable to the product cost for example direct material cost and direct labour cost.*
   2. *Amount paid for rent, commission, salary, advertisement etc.*
   3. *Decline in the value of an asset caused by the use of such asset for business purpose or depreciation is also an expense*
5. Receipts = *Receipts are of two types revenue receipts and capital receipts. Revenue receipts are shown on the credit side of trading and profit and loss account where as capital receipts are shown on the balance sheet either as increase in liabilities or as reduction in the value of the assets.*

- *Example of revenue receipts are:*

  Amount received from the sale of goods.

  Commission and fees received for services rendered.

  Interest and dividend received on investments.

  Example of capital receipts are:

1. *Amount received from the sale of fixed assets or investments.*
2. *Capital contributed by proprietors, partners or money obtained from issue of shares and debentures in case of company.*
3. *Amount received by way of loans.*

6. Expenditure = *Expenditure may be classified into three categories: capital expenditure, revenue expenditure and deferred revenue expenditure.*

   Capital expenditure = *Any expenditure which is incurred in acquiring or increasing the value of a fixed asset is termed as capital expenditure. As such, the amount spent on the purchase or erection of building, plant, furniture etc is capital expenditure. Such expenditure yields benefit over a long period and hence written in assets.*

   Revenue expenditure = *Any expenditure, the full benefit of which is received during one accounting period is termed as revenue expenditure. As such, all the revenue expenditures are debited to trading and profit and loss account. Such expenditure does not result in an increase in the earning capacity of the business but only helps in maintaining the existing earning capacity. It also does not bring into existence any asset of an enduring nature.*

   Difference:

1. *Capital expenditure is incurred for the acquisition and erection of a fixed asset, whereas revenue expenditure is incurred for the day to day running of the business.*
2. *Capital expenditure is incurred for the purpose of increasing the earning capacity of the business, whereas revenue expenditure is incurred for maintenance of earning capacity of business.*
3. *It yields benefit normally over a long period, whereas revenue expenditure yields benefit for a maximum period of one year.*
4. *Capital expenditure is written in the balance sheet, whereas revenue expenditure is written in trading and profit and loss account.*

Deferred revenue expenditure = *There are certain expenditures which are revenue in nature but the benefit of which is likely to be derived over a number of years. Such expenditures are termed as 'deferred revenue expenditures'.*

The benefit of such expenditure generally lasts between 3 to 7 years. As such, only a part of such expenditure is taken to profit and loss account every year and the unwritten off portion is allowed to stand on the assets side of the balance sheet.

For example, a firm spent a huge amount of 2 lakh on advertising to introduce a new product in the market and it is estimated that its benefit will last for 4 years. In this case 50 thousand will be charged i.e. debited to P&L A/C of each year for four consecutive years and the balance will be treated as an asset and shown on the assets side of the balance sheet.

7. *Income = Income is different from revenue. Amount received from sale of goods is called revenue and cost of goods sold is called expense. Surplus of revenue over expenses is called income. For example, the goods costing 400000 rs sold for 500000 rs. Here 500000 rs is revenue and 400000 rs is expense and the difference between two i.e. 100000 rs is income.*
8. *Gain = It is a monetary benefit, profit or advantage resulting from events or transactions which are incidental to business such as sale of fixed assets, winning a court case or appreciation in the value of asset.*
9. *Profit = It is the excess of total revenues over total expenses of a business enterprise for an accounting period. Profit increases the investment of the owners.*
10. *Loss = It conveys the result of the business for a period when total expenses exceed the total revenues.*
11. *Purchases = the term purchases refer to the total amount of goods obtained by an enterprise for resale or use in the production of goods or rendering of services in the normal course of business. The purchases may be for cash or on credit.*
12. *Purchase return = When purchased goods are returned to the suppliers these are known as purchase returns. Such returns are also termed as "return outwards".*
13. *Sales = the term 'sales' refers to the amount for which the goods are sold or services are rendered. The sales may be for cash or on credit.*
14. *Sales return = some customers might return the goods to them. These are termed as sales return or return inwards.*
15. *Stock or inventory = the term stock includes the value of those goods which are lying unsold at the end of accounting period. The stock may be of two type:*

    Opening stock = the term opening stock means the value of goods lying unsold at the beginning of the accounting period.

    Closing stock = the term closing stock means the value of goods lying unsold at the end of the accounting period.

- *Stores = the term 'stores' is used to denote materials held by an enterprise for the purpose of consumption in the business and not for resale. Examples are lubricants, spare parts of machinery, packing materials etc.*
- *Liabilities = Liabilities refer to the financial obligations of an enterprise other than owner's funds. Liabilities may be broadly classified as follows:*
- *Short term or current liabilities = Current liabilities refer to those liabilities which are expected to be settled normally within 12 months from the date of balance sheet. For example bills payable, trade creditors, outstanding expenses, bank overdraft and so on.*

- *Long term liabilities = Long term liabilities refer to those liabilities which are expected to be settled after 12 months from the date of balance sheet. For example long term loans, debentures and the like.*
- *Assets = anything which is in the possession or is the property of a business enterprise including the amounts due to it from others, is called an asset. In other words, anything which will enable a business enterprise to get cash or a benefit in future is an asset. Thus, cash and bank balance, stock, furniture, machinery, land and building, bills receivable, money owing by debtors etc all are assets.*
- *Current Assets = Current assets are those assets which are held:*
- *In the form of cash,*
- *For their conversion into cash, normally within 12 months from the date of balance sheet and*
- *For their consumption in the production of goods or rendering of services in the normal course of business for example cash and bank, stock, debtor, bills receivable etc.*

  Liquid assets = Liquid assets represent the current assets other than stock and prepaid expenses.

  Liquid Assets = Current Assets – Stock – Prepaid Expenses.
- *Fixed assets = Fixed assets refer to those assets which are held for the purposes of producing or providing goods or services and those that are not held for resale in the normal course of business. Fixed asset may be classified as follows:*

1. *Tangible fixed assets = Refer to those fixed assets which have physical existence. For example land and building, plant and machinery and furniture and fixtures.*
2. *Intangible fixed assets = Refer to those fixed assets which do not have physical existence. For example goodwill, patent, trademarks, copyright and the like.*
3. *Fictitious assets = Fictitious assets either represent accumulated losses or deferred revenue expenses not yet written off till the date of balance sheet.*
4. *Debtors = The term debtors represents those persons or firms to whom goods have been sold or services rendered on credit and payment has not been received from them. They still owe some amount to the business. For example, if goods worth 50 thousands have been sold to mohan on credit, he will continue to remain the debtor of the business so long as, he does not make the full payment.*
5. *Creditors = The term 'creditor' represents those persons or firms from whom goods have been purchased or services procured on credit and payment has not been made to them. Some money is still owing to them.*

6. Bills payable = *A bill of exchange becomes bill payable for the person who accepts it i.e. drawee and returns it to the drawer. Thus bills payable is an accounting term for bills of exchange accepted in favour of creditors. The amount specified in such a bill is payable at a future date. Bill payables are current liabilities.*
7. Bill receivable = *A bill of exchange becomes bill receivable for the person who draws it i.e. drawer and gets it back, after its acceptance from the drawee. Thus the bill receivable is an accounting term for bill of exchange drawn on debtors. The amount specified in such a bill is receivable at a future date. Bills receivables are current assets.*
8. Bad debts = *It is the amount that has become irrecoverable from a debtor. It is a business loss and is debited to profit and loss account as an expense.*