

# Introduction to Accounting

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## Accounting: Overview, Evolution, Development, Meaning and Features

### Objectives

After going through this lesson, you shall be able to understand the following concepts.

- Overview of Accounting
- Meaning of Accounting
- Characteristics of Accounting

Till now in the previous classes you all have studied the subjects such as Mathematics, Science, Social Studies, Hindi, English, etc. Now, in class XI, you are going to be familiar with some new and fresh subjects such as Accountancy, Economics, Business Studies, etc. All these subjects come under the purview of one stream named as Commerce. Among all these subjects our main focus will be on “Accountancy”.

What is the first thing that comes to your mind when you hear the term Accounting?



Something related to business or something related with mathematical calculations or may be something related to keeping a track of someone's earnings and spending.

Accounting in very simple sense is maintaining a record of various activities.

Thus, Accounting is something that is used almost by everyone in their daily lives. In our daily life, we maintain the record of various transactions or activities. For instance, a student who gets monthly pocket money may keep a record of his various expenses i.e. how much he spent on buying books or pens, how much he spent with his friends or how much he has saved. Similarly, a house wife may keep a track of quantities of various grocery items such as pulses, rice, vegetables, flour, etc. Thus, the activities related to keeping a record of some activities or transactions are covered under the head accounting.

### **Evolution of Accounting**

What do you think, accounting is something that is evolved in the modern times? No, it has been in use from the ancient times.

Roots of Accounting can be traced long back in civilisation. Around 4000 B.C., in Babylonia and Egypt, payment of wages and taxes were recorded on clay tablets. As history claims that Egyptians kept the record of gold and valuable deposits and withdrawal from the treasuries. These records were reported on daily basis by the incharge of treasuries to the *wazir*, who used to forward the monthly reports to the king. Babylonia and Egypt used this method to rectify and remove errors, frauds and inefficiency from the records. Around 2000 B.C., China used sophisticated form of accounting. In Greece, accounting was used to maintain total receipts and total payments and to balance government accounts. In Rome, around 700 B.C., receipts and payments were recorded in daybook and were posted in the ledger at the end of the month. In 1494, Luca Pacioli wrote the book *Summa de Arithmetica Geometria Proportioni et Proportionalita*. In this, he explained the term debit and credit, which are used in accounting till date.

In India, around twenty three centuries ago, *Kautilya* wrote the book ***Arthshastra***, which described how accounting records had to be maintained.

Book Keeping emerged during the Barter system when there was no cash system and trade was carried by exchanging goods and services. At that time, transactions were kept in individual ledgers and they can be provided as evidence in case of dispute.

Afterwards, when currency and numbers were introduced then the single entry system of book keeping was evolved, where a single column is maintained and all the transactions whether paid or received are recorded in that column. In the 15<sup>th</sup> Century when Luca Pacioli explained the double entry system, book keeping became more efficient as transactions were recorded separately in the debit and credit column which provided a clear image of the financial position of the business firm.

Earlier, *Munshi ji* or *Munim ji* used to play the role of accountants. They used to keep account of various activities of various people which is generally known as Bahi khata. At that time, number of transactions was not so huge and can be easily recorded in the books.



### **Development of Accounting**

In ancient times, around 4000 B.C., accounting was used for recording wages and salaries, deposits and withdrawals of valuable goods (such as gold and silver) from the treasures of the king. Afterwards, it was used to record the receipts and payments and balancing of government financial transactions. During 1500 A.D., accounting was used by business firms for recording transactions related to business. In 1800 A.D., accounting was used to record transactions and also to provide information to various users of financial data.

During the ancient times, accounting was merely concerned with recording of the financial transactions i.e. book keeping. But with the passage of time, the role of accounting has changed. In today's world, the role of accounting is extended to provide relevant information to various users. With the passage of time, as the scope of business increased, their expenditure on different activities inturn increased which lead to a large number of transactions. To memorise the huge and complicated transactions is beyond the human capacity. Therefore, it becomes necessary to record them properly in the books in a systematic manner so that exact position at the end of the day can be easily ascertained. For this, there arises a need of a sophisticated system which has been fulfilled by Accounting. Therefore, in the modern world, the area of accounting has broadened and is no more limited to the recording of transactions only. Accounting has evolved with the passage of time.

Thus, Accounting, in simple terms, is recording of various transactions, that took place during a particular period, in the books of accounts in a systematic and a proper manner. Accounting, now-a-days, is just not limited to recording transactions in the books but also to convey useful information to its users.



Accounting is a process of identifying the events of financial nature, recording them in Journal, classifying them in their respective ledgers, summarising them in Profit and Loss Account and Balance Sheet and communicating the results to its users such as proprietors, government, creditors, investors etc.

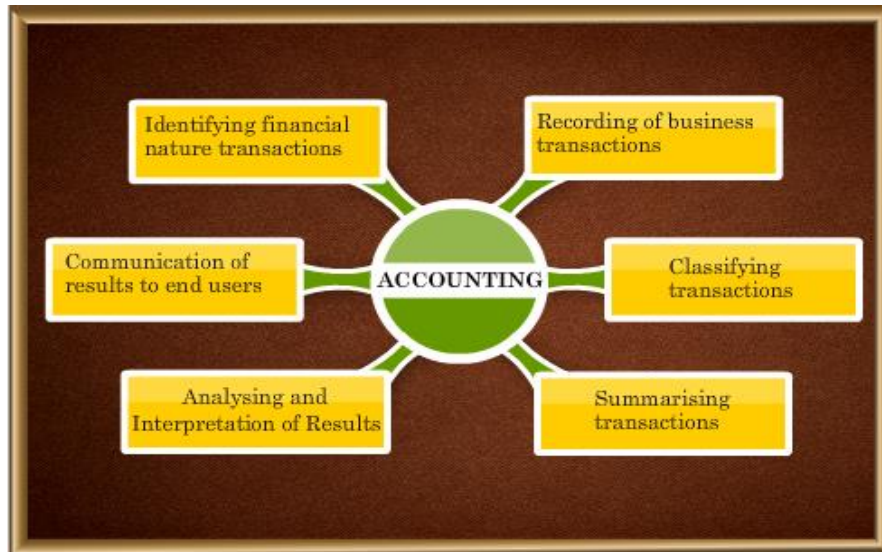
According to the American Institute of Certified Public Accountants, 1941, *“Accounting is the art of recording, classifying and summarising in a significant manner and in terms of money; transactions and events which are, in part at least, of a financial character, and interpreting the results thereof.”*

In the words of Bierman and Derbin, *“Accounting may be defined as identifying, measuring, recording and communication of financial information.”*

In the opinion of Smith and Ashburne, *“Accounting is the science of recording and classifying business transactions and events, primarily of a financial character, and the art of making significant summaries, analysis and interpretations of those transactions and events and communicating the results to persons who must make decisions or form judgement.”*

Accounting is concerned with economic activities of the business. Thus, transactions which can be measured in terms of money are recorded in Accounting. Transactions like purchase of machinery, payment of salaries, wages, purchase of raw material, sale of goods etc. all are examples of economic events. Economic events can be classified as external events and internal events. If a transaction occurs between an outsider and the organisation it is termed as external event like purchases made from suppliers, sales made to customers etc. When transaction occurs internally i.e. from one department to other or within the organisation then it is termed as internal event like supply of raw material to the other

department. From the above definitions, it can be inferred that in accounting only transactions of financial nature are recorded. Financial transactions are those transactions that involve flow of cash. Accounting is popularly regarded as a communication link between the business and its various users or language of the business. This is because accounting provides important and vital information to its external as well as internal users.

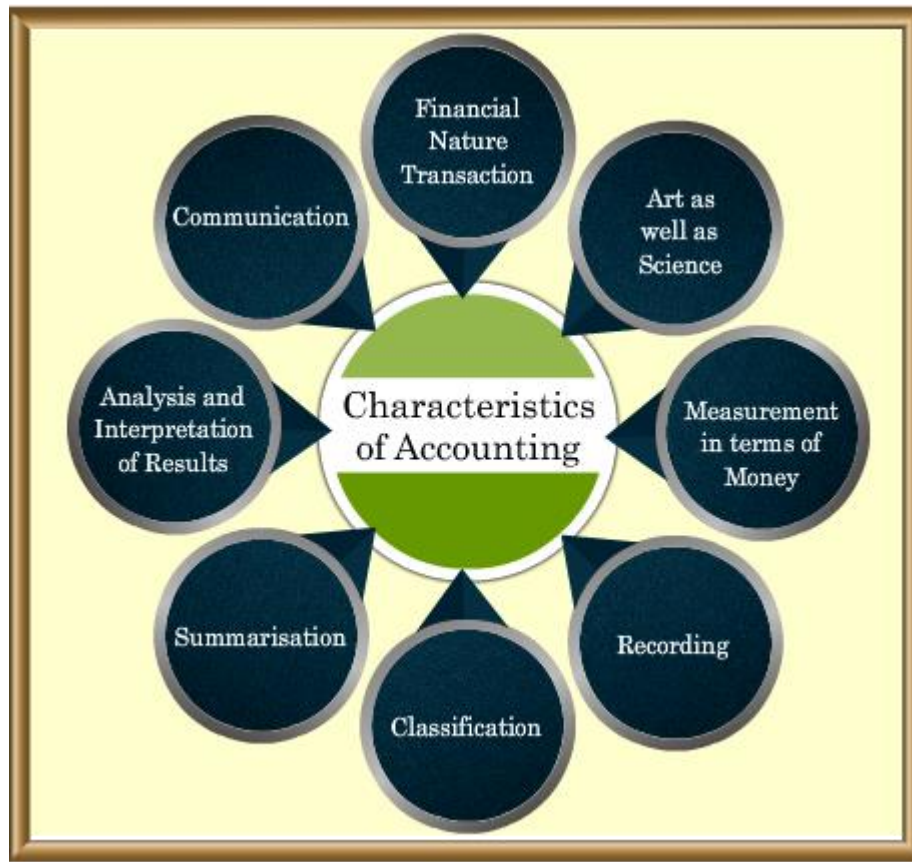


**1. Financial Nature Transactions-** Accounting is the process of identifying and recording the events and transactions of financial character. Financial nature transactions are those transactions which can be measured in terms of money or which involves flow of cash. There may be events which are not financial in nature but are significant for a business. For example, honesty and dedication of an employee is an important factor which cannot be recorded in the books. So, accounting records only financial nature transactions and events. Thus, transactions of non-financial nature are not recorded even if they have substantial effect on the business.

**2. Art as well as Science-** Art is a method of achieving the planned goals. Accounting, in relation to art, is a process, of identifying, recording, classifying, and summarising financial transactions with the help of which a business can achieve its desired goals. It helps in knowing the profitability and financial status of a business. On the other hand, science is an organised and systemised body of knowledge based on some basic principles. In a similar sense, accounting is also like a science as it is based on certain basic accounting principles and standards.

**3. Measurement in terms of Money-** In accounting, all the business transactions are recorded in terms of a common unit i.e. money. This implies that the transactions which cannot be measured in terms of money will not be recorded in the books even if they have considerable effects on the earnings of a business.

- 4. Recording-** Accounting is a process of recording business transactions in the books of accounts. All the financial transactions are first recorded in the Journal or in case of bulky transactions recording is made in various subsidiary books such as Cash Book (*a book for recording cash transactions*), Purchase Book (*a book for recording transactions related to credit purchases*), Purchase Return Book (*a book for recording transactions related to return of credit purchases*), etc and Journal Proper (transactions which cannot be recorded in any above books).
- 5. Classification-** Transactions of similar nature are classified into different categories according to their nature. This means, transactions of similar nature are collected and recorded at one place that is in the ledger book. For example, all the transactions related to sales are recorded in the Sales Account.
- 6. Summarisation-** In accounting, financial data is presented in such a manner that it can be easily understood and utilised by its various users such as management, investors, creditors, etc. To fulfil this, Trial Balance, Trading and Profit and Loss Account, Statement of Profit or Loss (in case of companies) and Balance Sheet are prepared. All these statements help the users for the easy understanding of the financial data of a business.
- 7. Analysis and Interpretation of Results-** The results of a business are interpreted and presented in such a way that the users of financial statements can easily know about the performance of business in terms of profitability and solvency. It also helps them in assessing the financial status of business.
- 8. Communication-** In the last, accounting helps in communicating the financial results of a business to its various interested parties who can use the information as per their distinctive needs.



Accounting: Branches, Process, Objectives, Role of Accounting

### **Objectives**

After going through this lesson, you shall be able to understand the following concepts.

- Role of Accounting
- Branches of Accounting
- Objectives of Accounting
- Benefits of Accounting
- Drawbacks of Accounting

The role of accounting has changed over the period of time. In the modern world, the role of accounting is not only limited to record financial transactions but also to provide information to the management so that it can be used as a basic framework for decision making, providing relevant information to various users and assist in both short run and long run planning. The role of accounting in the modern world is given below.



- ***Provides assistance to management*** – Management uses accounting information for short-term and long-term planning of business activities, to predict the future conditions, prepare budgets and various control measures.
- ***Helps in comparative study*** – In the modern world, accounting information helps us to know the performance of the business by comparing current year's profit with that of the previous years and also with other firms in the same industry.
- ***Substitute of memory*** – In the modern world, every business involves large number of transactions and it is beyond human capability to memorise each and every transaction. Hence, it is necessary to record transactions in the books of accounts.
- ***Information to end users*** – Accounting plays an important role in recording, summarising and providing relevant and reliable information to its users, in the form of financial data that helps in decision making.

In the modern days the scope of accounting is not confined only to the ascertainment of profits or losses of a business during a particular accounting period. Rather, its scope has widened to other areas as well such as providing useful information to the management which helps them in decision making and drafting their future plans. So, in order to fulfil the various requirements of management, accounting can be classified into different branches. These are as follows:

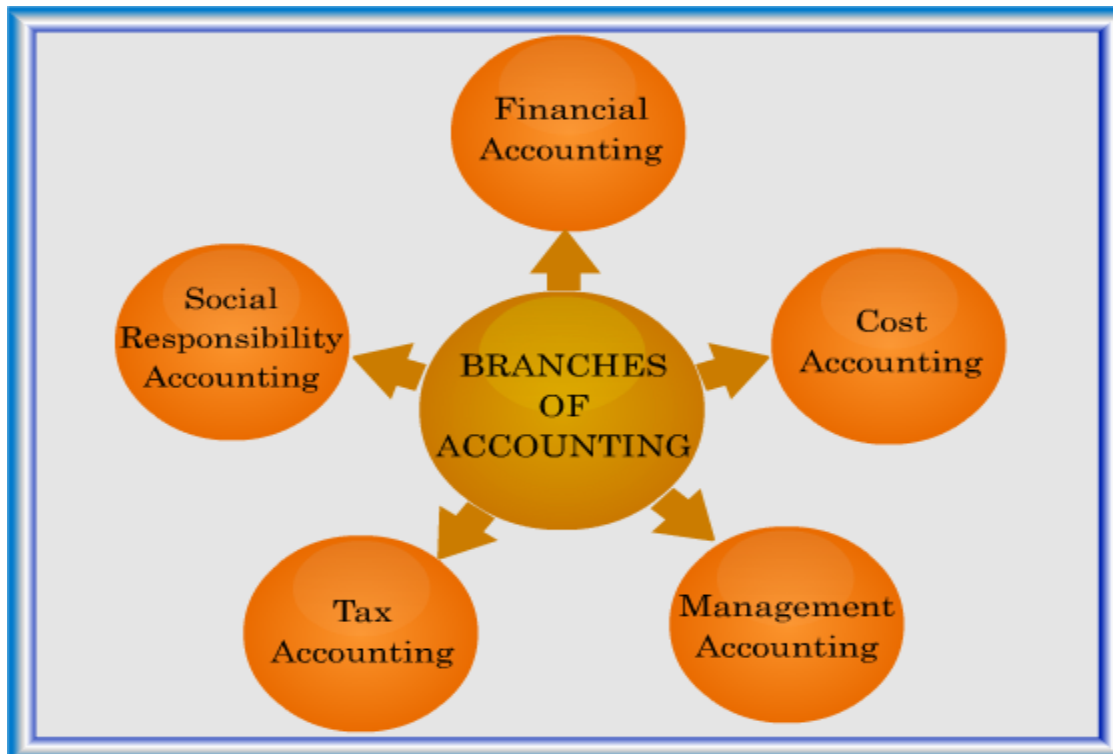
1. **Financial Accounting-** It is mainly concerned with identifying the transactions of financial nature and their recording in the books, classifying, summarising and communicating the business results. The main focus of this branch of accounting is to determine the profit or loss of a business by preparing Trading and Profit and Loss Account. This also helps in assessing the financial position at the end of an accounting period by preparing the Balance Sheet. It also provides useful information to the management and to various other parties interested in the business. Financial accounting starts with recording of business transactions in the books and ends with preparing the financial statements of the business.
2. **Cost Accounting-** It is another branch of accounting which is concerned with ascertaining the cost of production and its various elements. It is a process of classifying, recording and ascertaining of cost that provides relevant information for controlling the costs in the future and removing inefficiencies from the production process.
3. **Management Accounting-** This branch of accounting helps in presenting the financial data and results in such an easy manner so that the vital and useful information can be easily and clearly available to the management. Management uses this information for drafting their future plans and their decision making. In other words it can be said that, management accounting is a process of accounting under



which management uses the information provided by financial and cost accounting for drafting the future policies, controlling, organising and decision-making process.

**4. Tax Accounting-** This branch of accounting is a technique of accounting that is used for the tax purposes. Tax accounting helps in handling the tax issues of a business such as computation of tax liabilities, filing tax returns, etc.

**5. Social Responsibility Accounting-** This is one of the important branches of accounting that studies the effects of business decisions on the society. It is basically concerned with analysing and interpreting the contribution of business to the society. A business can contribute to the society by generating employment, carrying out business without adversely affecting the environment, by making customer friendly products, etc.

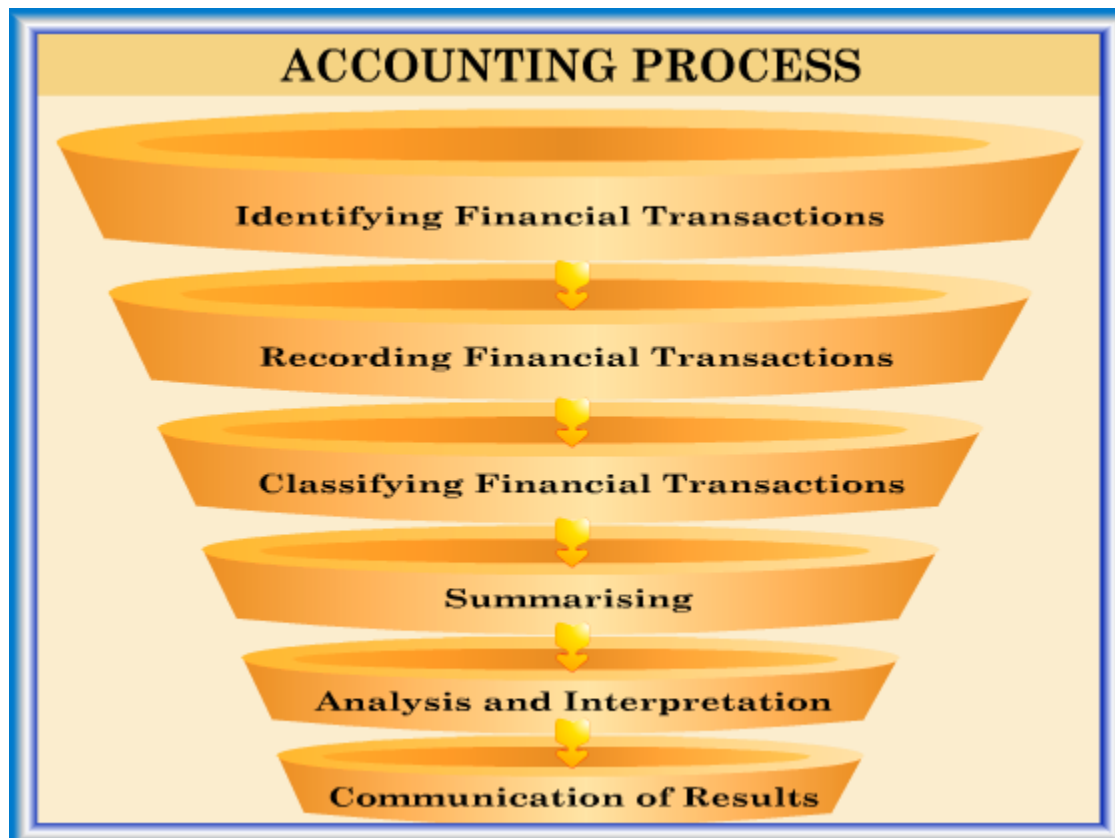


**1. Identifying financial transactions:** First of all, transactions which are of financial nature i.e. transactions which can be measured in terms of money, are to be identified.

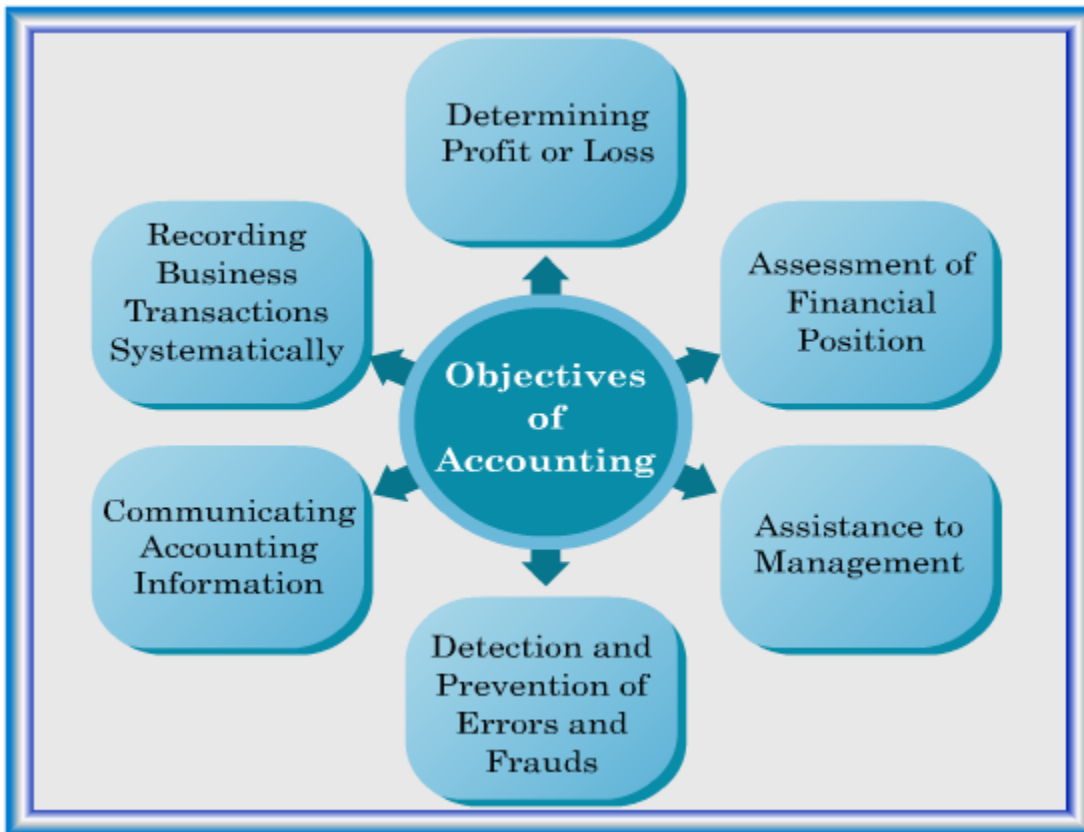
**2. Recording financial transactions:** In the next step, financial nature transactions are recorded in the books of accounts. Thus, transactions of financial nature are recorded in Journal.

- 3. Classifying financial transactions:** Accounting transactions once recorded are classified by collecting the similar transactions and posting them to Ledger i.e. book or account which records transactions of similar nature . For example- all the transactions related to Sales are recorded under one account i.e. Sales Account.
- 4. Summarising:** Accounting transactions are recorded, classified and summarised in a way which can be useful for the users of accounting information. Thus, to make information useful, Trial Balance, Trading Account, Profit and Loss Account or Statement of Profit or Loss (in case of Companies) and Balance Sheet are prepared. All these statements help the users for the easy understanding of the financial data of a business.
- 5. Analysis and Interpretation of Results:** Results from Financial Statements are analysed and interpreted in a meaningful manner. Such that, those can be used by the users of financial information in order to assess the financial performance of the business.
- 6. Communication:** Finally, results of financial statements are communicated to the various interested parties who can use the information as per their distinctive needs.

Process of Accounting or Phases of Accounting can also be termed as Functions of Accounting or Accounting Cycle.



1. ***Recording Business Transactions Systematically***- Accounting aims at recording a huge number of business transactions in the books of accounts in a systematic and organised manner. This systematic record of transactions helps in eliminating the chances of errors and frauds in the business that can take place while carrying out business activities.
2. ***Determining Profit or Loss***- Every business organisation is interested in knowing its net results in terms of profits or losses for a particular accounting period. It is ascertained by preparing the income statements for an accounting period. Income statements include Trading Account and Profit and Loss Account. These statements record various items of revenues and expenses of the business. The difference between revenues and expenses is regarded as profit or loss during the year.
3. ***Assessment of Financial Position***- Determining only the profits or losses from the business activities is not enough. It is also very important for a business to know about its financial position i.e. strengths and weaknesses of the business. This can be easily assessed by preparing Balance Sheet at the end of an accounting period. Balance Sheet is a statement showing various assets and liabilities of a business prepared for a particular accounting period.
4. ***Assistance to Management***- One of the important objective of accounting is to assist the management by providing them with vital and relevant information. Management uses this information for their effective decision making, formulating plans, efficient control on business activities, etc.
5. ***Assessment of Progress of Business***- Accounting helps in comparing the results of two or more periods. This in turn helps in assessing the trend of growth and progress of the business.
6. ***Detection and Prevention of Errors and Frauds***- There is always a possibility of errors and frauds in the business while carrying out its activities. The chances of their occurrence is minimised to a great extent by maintaining a systematic record of various business transactions.
7. ***Communicating Accounting Information***- An important step in the accounting process is to communicate the financial and accounting information to its various users including both internal and external users. This assists the users to understand and interpret the accounting data in a meaningful and appropriate manner without any ambiguity.



### Functions of Accounting

**1. Record of Transactions:** Accounting provides a systematic record of the financial transactions of a business. This is because the records so maintained follow a well developed system of principles and conventions which render uniformity and authenticity to them. For example: Furniture purchased for cash. This is a financial transaction because here the exchange of an asset (i.e. Furniture) is taking place in lieu of cash. Hence, this will be recorded in the books of accounts and will provide an evidence of the purchase.

**2. Ascertaining the results of the business:** To ascertain how well the business is doing we prepare certain financial statements. They are called statements because they are prepared for a certain period which is usually a year. It is important to prepare them because they provide conclusive evidence that a business is doing well. We prepare the following as our financial statements: a) Profit and Loss Account: It is the income statement of the business and tells about whether a profit or loss has incurred during the accounting year. b) Balance Sheet: As we know, business owns certain items and also borrows funds from the outsiders. The position of these assets (i.e. owned by the business) and liabilities (i.e. owes to outsiders) is determined by the balance sheet.

**3. Compliance with the law:** Accounting provides the desired record needed to pay for indirect and direct taxes as per the law. A well maintained record is accepted by the

authorities without a dispute and ensures compliance with the law. For e.g.: An income tax return (i.e. statement declaring the revenues or incomes) can be prepared only when all transactions generating the revenues have been recorded as and when they have occurred.

**4. Providing information to the users:** Accounting provides the desired information to the users like shareholders, government, employees, etc.

**5. Helps with the Managerial Decisions:** All important decision related to the business are taken by the managers just like parents take decisions for their kids when they are small. These decisions are taken after deliberation and are supported by the information provided through accounting. For example: the decision to increase price of goods being sold will depend on the previous year's revenue that we want to increase.

**1. Financial Results of Business-** The main advantage of accounting is that it helps in determining the net results of a business in terms of profits or losses and reveals the financial status of the business at the end of an accounting period.

**2. Organised and Systematic Records-** It is beyond the human capacity to memorise a large number of business transactions. Accounting helps in recording such large number of transactions in a well organised manner which minimises the probability of erroneous and faulty results.

**3. Assistance to Management-** Accounting helps the management in effective decision making, efficient control on cash management policies, preparing budget and forecasting, etc. by providing them with useful information in an organised manner. Information that is provided by accounting helps the management in planning, controlling and decision making.

**4. Provides Comparative Study-** Accounting helps in maintaining the financial data of a business in a systematic manner for each of the year. This enables the comparison of business performance of one year with another year and finding the reasons of deviation between the two.

**5. Determining the Tax Liability-** A systematic record of business activities helps in ascertaining the tax liabilities of business.

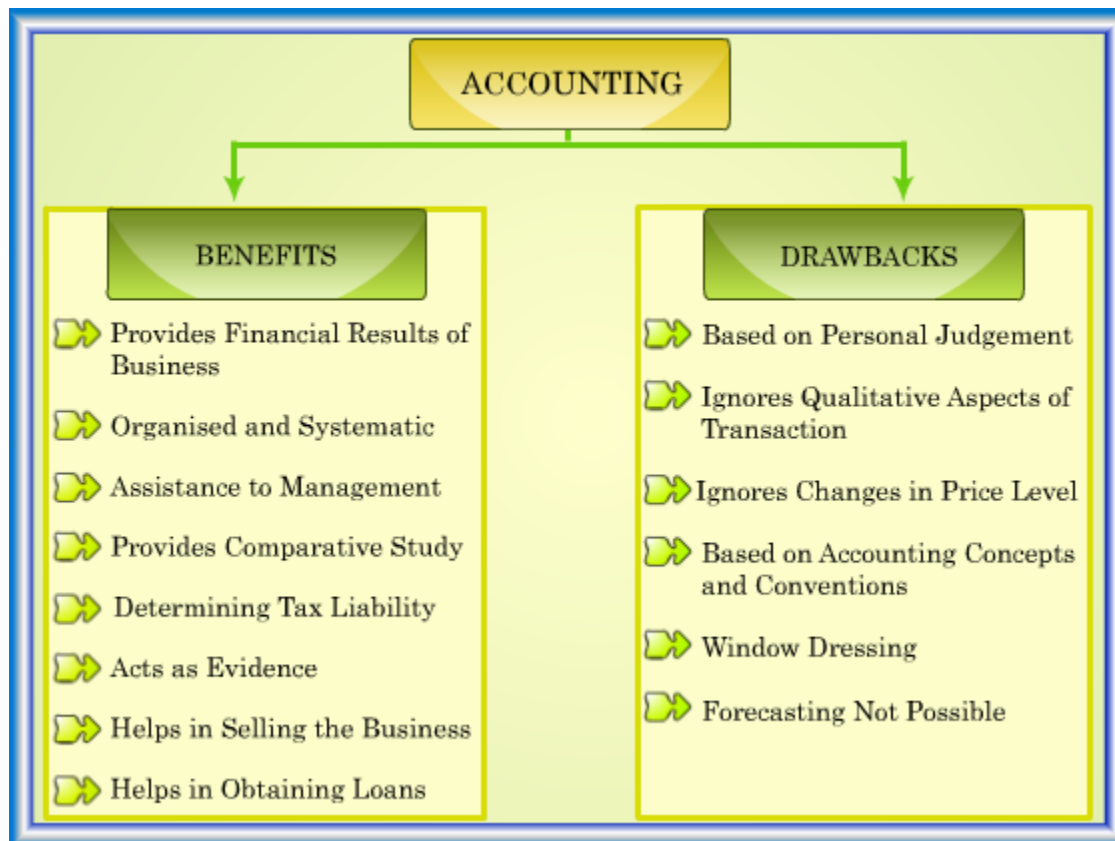
**6. Acts as Evidence-** In case of disputes, systematic record of business transactions can be produced as evidence in the court of law.

**7. Helps in Selling the Business-** In case a person decides to sell his/her business, then properly maintained accounts helps in determining the suitable price at the time of selling of business.

**8. Helps in Obtaining Loans-** Before granting loan to a business enterprise, the banks and financial institutions are interested in knowing the profitability and stability of a

business. This information can be easily fetched by properly maintained financial statements of the business.

1. **Based on Personal Judgement-** Even though all the business transactions entered in the books are based on proofs but still there are certain transactions that are recorded on the individual judgement of the accountants. For example, method for valuation of stock may differ from person to person. Similarly, method of providing depreciation can be varied. This will lead to different financial results by different people and hence the profit so ascertained cannot be considered as accurate or exact.
2. **Ignores Qualitative Aspects of Transaction-** In accounting, only those transactions are recorded in the books which are capable of being measured in terms of money. The qualitative aspects of transactions are ignored even if they have a significant impact on the business.
3. **Ignores Changes in Price Level-** The items are recorded in the books of accounts at their historical costs. It does not take into account the changes in the price level of the items in the market. Thus, the financial results disclosed by such financial statements fail to reveal the true financial position of the business.
4. **Based on Accounting Concepts and Conventions-** The accounts of a business are maintained by following various accounting concepts and conventions. Hence, the net results shown by the accounts are not considered reliable.
5. **Window Dressing-** Window dressing implies showing of false business results as compared to actual results. The accountant may adopt a practice of showing the manipulated figures in the accounts in order to show a better financial position of the business. In such a situation, financial statements fail to reveal the true and actual financial position of the business.
6. **Forecasting not Possible-** Accounting is based on the past events and transactions and does not take into consideration the rapid changes in the market such as change in the demand for product, change in cost of raw materials etc. Thus, it is not appropriate for making forecasting.



## Book Keeping and Accounting

### Objectives

After going through this lesson, you shall be able to understand the following concepts.

- Meaning of Book-Keeping
- Difference between Book-Keeping and Accounting
- Difference between Accounting and Accountancy
- Systems of Book-Keeping

## Book-Keeping and Accounting

The meaning of book-keeping can be found in the term itself. This implies keeping the records of business transactions in the original books of accounts of the business. Book-keeping is mainly concerned with identifying the transactions of financial nature, recording them and maintaining their systematic record in the books.

According to L.C. Cropper, "*Bookkeeping is the science of recording transactions in money or money's worth in such a manner that, at any subsequent day, the nature and effect of each transaction, and the combined effect of the transactions may be clearly understood so that the accounts prepared at any time from the records, thus, kept may show the owner of the books his true financial position.*"



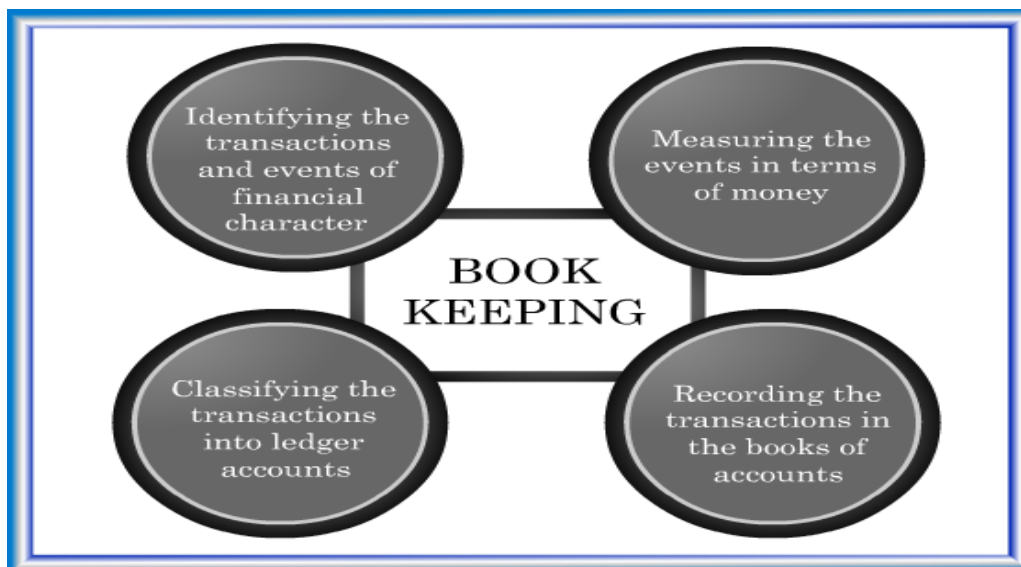
In the words of Northcott, “*Book Keeping is the art of recording in the books of accounts the monetary aspect of commercial and financial transactions.*”

J.R. Batliboi states Book Keeping as “*an art of recording dealings in a set of books.*”

From the above explanation, it can be derived that Book-Keeping is a function of:

- i. Identifying the transactions and events of financial character
- ii. Measuring them in terms of money
- iii. Recording them in the books of accounts and
- iv. Classifying the transactions so recorded into Ledger Accounts.

Thus, book-keeping helps in keeping the entire and comprehensive record of all the business transactions in an organised manner. It is a small part of accounting but it is very important as it forms the basis for accounting. Accounting is the secondary stage, whereas, book-keeping is the primary stage. To perform the function of book-keeping, one need not have a specialised and expert knowledge of accounts. This function can be performed by the clerical or junior staff of the business.



### **Accounting**

We have already discussed this term in detail in the previous lesson. It is a process of identifying the events of financial nature, recording them in Journal, classifying them in their respective ledgers, summarising them in Profit and Loss Account and Balance Sheet and communicating and interpreting the results to its various users. In other words, accounting includes book-keeping and summarises and communicates the financial results to its various users i.e. both internal as well external users. Thus, we can say, accounting is a wider concept and one step ahead of book-keeping. In the way round, accounting starts

where book-keeping ends.

### **Difference between Book-Keeping and Accounting**

Book-Keeping and Accounting are two terms that are often regarded as same. But it should be noted that there is a difference between these two terms. Given below are the points on the basis of which these can be differentiated.

<b>Point of Distinction</b>	<b>Book-Keeping</b>	<b>Accounting</b>
Key Area	It is a function of identifying the events of financial character, measuring them in terms of money, recording them in the books and lastly classifying them.	Apart from functions of book-keeping it is concerned with summarising, interpreting and communicating the financial information to the various parties interested in business.
Purpose	Main purpose is to record the financial transactions and events in the books of accounts.	Main purpose is to find out the net results and financial status of the business and communicating the results to its various users.
Stage	It is the first stage that forms the basis for accounting.	It is the second stage and it begins where book-keeping ends.
Nature of Job	It is a routine job.	It is analytical and dynamic in nature.
Performed by	It is performed by lower level staff.	It is performed by the higher level staff.
Knowledge	It does not demand any specialised knowledge of accounts.	It demands a specialised knowledge of accounting rules and principles.
Connection	It provides a basis for starting the process of accounting.	It starts where book-keeping ends.

### **Accountancy**

Generally, the two terms viz. accounting and accountancy are mistakenly regarded as same. However, there lies a difference between both the terms. Accountancy is basically an appropriate knowledge of accounting. It defines how the different techniques and principles of accounting are to be adopted in accounting. It provides us with knowledge of

preparing books of accounts, summarising, interpreting and communicating the business results to its users. According to Kohler, “Accountancy refers to the entire body of the theory and practice of accounting”.

As discussed earlier, there is a difference between the terms Accounting and Accountancy. These are differentiated on the basis of following points:

Point of Distinction	Accounting	Accountancy
Key Area	It is a function of identifying the events of financial character, measuring them in terms of money, recording them in the books and lastly classifying them.	Accountancy is basically appropriate knowledge of accounting which defines how the accounting principles and techniques are to be followed.
Purpose	Main purpose is to find out the net results and financial status of the business and communicating the results to its various users.	Main purpose of accountancy includes explaining principles and techniques that needs to be followed in accounting
Scope	Accounting is narrow in scope. It starts where book-keeping ends.	It is wider in scope because it explains the principles and techniques that are required to be followed in accounting and includes both accounting and book-keeping.

## Systems of Book-Keeping

There are two types of systems under which the day-to-day transactions are recorded:

1. Double Entry System
2. Single Entry System

### 1. Double Entry System

Under double entry system, there are two aspects of every transaction i.e. debit and credit. So, both the aspects of each transaction is recorded. In this system, the transaction is recorded on the debit side and also on the credit side. For example- when goods are sold on cash this transaction involves two aspects i.e. cash is received and goods are sold. Thus, in the double entry system cash account is debited and sales account is credited. This system is based on the dual aspect principle of accounting that for every debit there must be a credit of equal amount.

## Stages of Double Entry System

1. Firstly, we record transactions from the vouchers into the Journal which is called the book of original entry.
2. Secondly, transactions in the Journal are classified and then posted to their respective ledger accounts. For e.g.: Rent paid by cash will be recorded in the rent A/c and cash a/c. Then a Trial Balance is prepared to verify the correctness of the ledger accounts.
3. Lastly, final accounts are prepared to ascertain the profit earned or loss incurred as a result of operations.

## Characteristics of Double Entry System

1. **Systematic records:** Double entry system maintains the systematic and complete records of each transaction.
2. **Dual aspect:** This system is a complete method as it recognises and records both the aspects of a transaction.
3. **Scientific method:** This is regarded as a scientific method as it follows the rules of debit and credit. Also, with complete records errors can be detected and rectified easily.
4. **Arithmetical Accuracy:** This method ensures arithmetical accuracy because the total of debit is equal to the total of credit as one aspect of a transaction is debited and other is credited.

## Advantages of Double Entry System

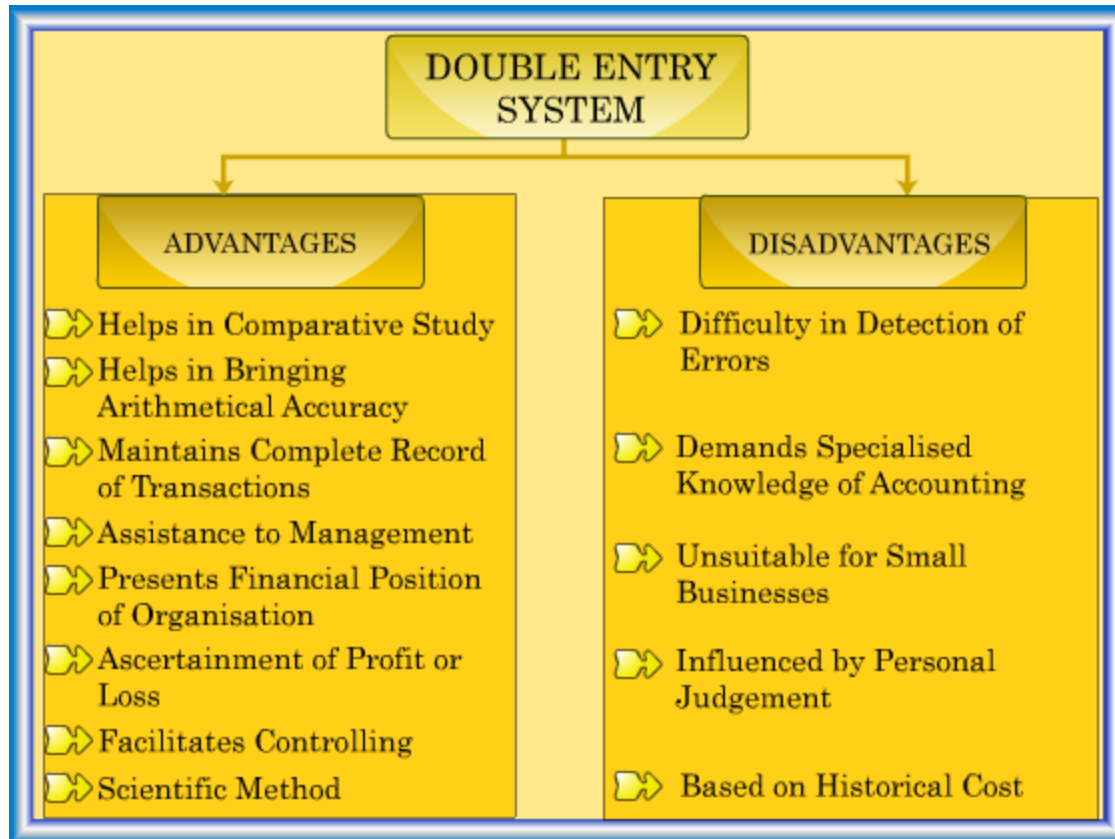
1. **Scientific method:** This method follows the rules of debit and credit, thus this system is a scientific method of recording business transactions.
2. **Helps in comparative study:** This method helps in comparative study of the results of two financial years because it prepares a systematic record of all the business transactions.
3. **Helps in bringing arithmetical accuracy:** Double Entry System helps in bringing numerical accuracy in accounting work. In this system, trial balance is prepared which helps in ensuring the accuracy. However, matching of both sides of the trial balance do not guarantee that the accounts so prepared will be error free.

4. **Maintains complete record of transactions:** Under this system, both aspects of a transaction are recorded, which means it results in showing the true position of Assets and Liabilities.
5. **Assistance to management:** This system assists management in decision making as it maintains complete records of business transactions and provides relevant information to the management which helps in taking rational decisions.
6. **Minimises the possibilities of errors and frauds:** Since complete record of business transactions is maintained under this system, thus, it minimises the probability of existence of errors and frauds in accounting records.
7. **Presents financial position of an organisation:** This system helps in ascertaining the financial position of an organisation because at the end of the accounting period financial statements are prepared under this system of accounting.
8. **Ascertainment of Profit or Loss:** Profit earned or loss incurred during a particular accounting period can be ascertained by preparing Trading and Profit and Loss Account.
9. **Facilitates controlling:** Under this system, proper record of business transactions is maintained. Thus, information provided under this method helps the management in effective controlling.

### **Disadvantages of Double Entry System**

1. **Based on historical cost:** Accounting records that are maintained under this system of accounting are based on historical records. Thus, it ignores the effect of inflation and it cannot be ascertained that whether accounts prepared present the true and fair view of business or not.
2. **Difficulty in detection of errors:** Double entry system minimises the errors in the accounting records. But, since the records are maintained by humans, there is a possibility that an error may occur i.e. when a transaction is wrongly recorded in the books. Thus, it becomes difficult to detect such errors under this system of accounting.
3. **Demands specialised knowledge of accounting:** Double entry system requires specialised knowledge of accounting for the preparation of accounting records properly.
4. **Unsuitable for small businesses:** An accountant having specialised knowledge is required for recording of transactions on double-entry basis. So, it becomes difficult for small businesses or sole proprietors to maintain the records according to the double entry system.

**5. Influenced by personal judgements:** Sometimes the accounting records maintained under this system of accounting are influenced by the personal judgement i.e. accounts are manipulated to show a better financial position of a business and not the actual position.



## 2. Single Entry System

Books of accounts can be maintained under Single Entry System also. In this accounting system, the rules of debit and credit are not strictly followed. Unlike the Double Entry System, where we used to record the dual aspect of each transaction (i.e. every transaction affects two accounts simultaneously), here in this system, we record only the single aspect of a transaction. This is the reason, why Single Entry System is commonly termed as *Accounts from Incomplete Records* or *Defective Double Entry System*.

Under Single Entry System, we maintain only cash and personal accounts. On the other hand, real and nominal accounts are completely ignored. In other words, we can say that following the Single Entry System, we do not prepare subsidiary books (such as Purchase Day Book, Sales Day Book, Purchase Returns and Sales Returns Book) and ledgers accounts. Often accountants regard Single Entry System as an unscientific method of maintaining records, as the practice that is followed in this system is unsystematic and unorganised.

## Advantages of Single Entry System

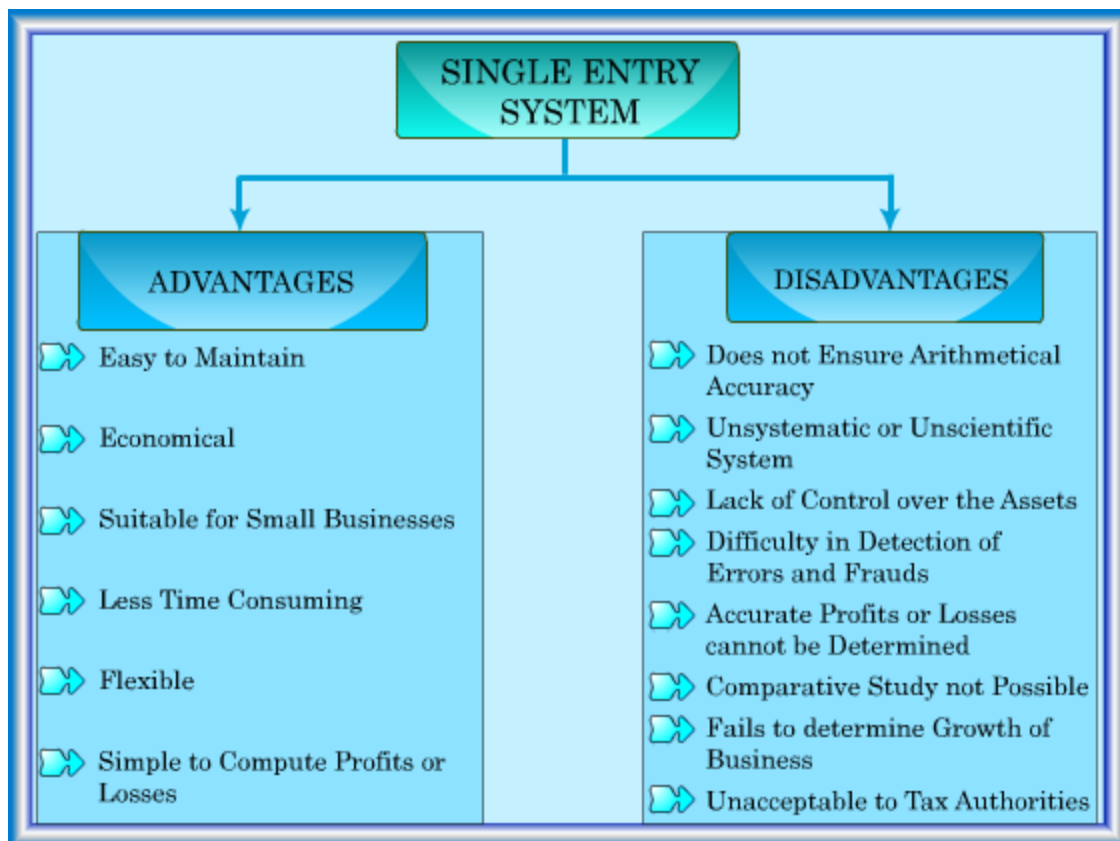
1. **Easy to Maintain-** This method of recording transactions is simple. This is because no expert knowledge of accounting is required to maintain books.
2. **Economical-** This system is less expensive in comparison to double entry system of accounting as there is no need to hire specialised accountant for maintaining accounting records.
3. **Suitable for Small Businesses-** This system is particularly suitable for small business organisations that do not account for a large number of transactions.
4. **Less Time Consuming-** It is less time-consuming as only few books are to be maintained.
5. **Flexible-** As the rules of Double Entry System are not strictly followed, so, it can be easily adjusted or changed as per the requirement of the proprietor.
6. **Simple to Compute Profits or Losses-** The computation of profits or losses under this system is very simple. This is done merely by comparing the capital at the end with that of capital in the beginning.

## Disadvantages of Single Entry System

1. **Does not ensure Arithmetical Accuracy-** Under this system, Trial Balance is not prepared; therefore, it becomes extremely difficult in verifying and checking the arithmetical accuracy of the books of accounts so prepared. This in turn encourages frauds and manipulations.
2. **Unsystematic or Unscientific System-** As the dual aspects of the transactions are not recorded, so this system is considered to be incomplete or unscientific.
3. **Lack of Control over the Assets-** As real and nominal accounts are not prepared, so it is difficult to keep a proper account of the assets. This may lead to misappropriation, frauds and embezzlement of assets.
4. **Difficulty in Detection of Errors and Frauds-** Since proper accounting system is not followed, the books of accounts fail to reveal the clear financial picture of the business. This may further encourage the probability of undetectable errors and frauds.
5. **Accurate Profits or Losses cannot be determined-** Under this system, the profits or losses so determined are merely an approximation and not the actual figures. Thus, Single Entry System is not capable of depicting the true financial position of a business.



- 6. Comparative Study not Possible-** One of the major drawbacks of this system is that it fails to compare the current year's performance with that of the previous year. Thus, meaningful comparative studies and analysis cannot be laid.
- 7. Fails to Determine Growth of Business-** The actual performance of a business is expressed and measured in terms of profits and losses. Since, Single Entry System is incapable of revealing the actual profit or loss figures; therefore, this system fails to enable the users to assess the actual performance of the business.
- 8. Unacceptable to Tax Authorities-** The books of accounts maintained by following Single Entry System is not accepted by the tax authorities on any grounds. This is because these books are not maintained by following universally and lawfully accepted accounting principles.



## Accounting Information: Meaning, Users and Qualitative Characteristics

### Objectives

After going through this lesson, you shall be able to understand the following concepts.

- Meaning of Accounting Information
- Users of Accounting Information

- Accounting as a Source of Information
- Qualitative Characteristics of Accounting Information

By now, we all know that accounting is a process of providing relevant accounting information to its users. In short, it is a communication channel between the business and its various users. Before providing the information to its users, accounting first records, classifies, summarises and analyses the business transactions. That is, it starts with identifying the financial transactions and ends with preparing the financial statements of a business. The financial statements basically consists of Trading Account, Profit and Loss Account and the Balance Sheet. During the whole process of accounting, certain information and facts are generated which may be useful for its users. This information is considered as accounting information which needs to be exchanged between business and its users. Thus, accounting information can be defined as data and facts produced or revealed by the financial statements of a business. This information is generally available in the form of financial statements, financial reports, etc.

The accounting information may be required by its users for meeting their numerous individual needs. The accounting information can be broadly categorised in the following three categories.

- i. Information Regarding Profit or Loss-** Mostly the users of financial statements are interested in knowing the profits or losses of a business. This information of profits or losses of the business are revealed through the Trading and Profit and Loss Account of a firm. Companies prepare Statement of Profit and Loss which is prescribed in the Schedule VI of the Companies Act, 1956 whereas, Income and Expenditure Account is prepared in case of a Not-for Profit Organisation to ascertain profits or losses. These statements show the net results of the operating activities of a business.
- ii. Information Regarding Financial Position-** Financial position is another information which is important for the users of financial statements. The financial strengths and weaknesses of a business are revealed through the Balance Sheet. In this statement, the various assets and liabilities of a business are shown.
- iii. Information Regarding Flow of Cash-** Cash Flow Statement shows both inflows and outflows of cash during an accounting period or a specific period. This information is of great importance in the business as it helps in knowing its actual cash position. Such information is revealed through the Cash Flow Statement of business. Various important decisions of business depends on the availability of cash.

## **Users of Accounting Information**

There are various parties or users who are interested in the business of an enterprise and require accounting information. These users can be bifurcated in two categories as- Internal Users and External Users.

## **1. Internal Users**

These are the users who are internal to an organisation. Such users have a direct access to the financial statements of a business. The following users are included in the category of internal users.

- i. Owners-** These are the persons who make investment in the business. These are interested in knowing the profit earned or loss incurred during an accounting period. They are interested in assessing the profitability and viability of the capital invested by them in the business. The financial statements prepared by the business concerns enable them to have sufficient information to assess the financial status and financial health of the business.
- ii. Management-** The management is an integral part of an organisation. They are indulged in drafting plans, decision-making process, evaluating the past performances, etc. The financial statements enable the management not only in drafting policy measures and planning but also in efficient implementation of the plans. With the help of information revealed by the financial statements, management can not only enhance the efficiency of the business but also exercise various cost controlling measures to remove inefficiencies.
- iii. Employees and Workers-** They are interested in the timely payment of wages and salaries, bonus and appropriate increment in their wages and salaries. With the help of the financial statements they can know the amount of profit earned by the company and can demand reasonable hike in their wages and salaries. The financial statements also help them to assess their individual career scope and their growth prospects.

## **2. External Users**

External users are those who are outsiders to an organisation and are interested in the financial affairs of the business. These users do not have a direct access to the financial statements of the business. The following parties come under the head of external users.

- i. Banks and Financial Institutions-** Banks provide finance to various businesses in the form of loans and advances. Thus, they need information regarding liquidity, credit worthiness, solvency and profitability to advance loans. The accounting information revealed through the financial statements of business enable them to have access over such information.
- ii. Investors and Potential Investors-** These are the parties who have invested or are planning to invest in the business of an enterprise. They are interested in knowing

the safety of their investment in the business and regularity of returns on their investments. Hence, in order to assess the viability and prospects of their investments, they need information about the profitability and solvency position of the business.

**iii. Creditors-** These are the parties to whom a business owes money on account of credit purchases of goods and services. Hence, creditors require accounting information to enquire about the credit worthiness and liquidity position of the business.

**iv. Tax Authorities-** They need accounting information to know whether the amount of sales, production, profits, revenues, etc. are correctly calculated and shown unambiguously in the books. This is very important so that appropriate and correct tax rates (of taxes such as sales tax, excise duty, etc.) are levied on the business.

**v. Government-** Government requires information to determine various macro-economic variables such as national income, GDP, industrial growth, etc. The accounting information assists the government in the formulation of various policy measures and to address various economic problems such as unemployment, poverty, etc.

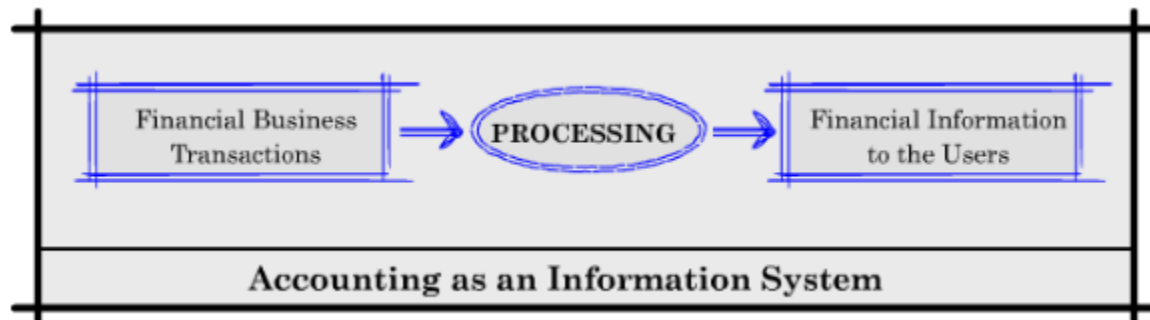
**vi. Consumers-** Every business attempts to build-up reputation in the eyes of consumers, which can be created only by supplying better quality products and post-sale services at reasonable and affordable prices. Businesses that have transparent financial records, assists the customers in knowing the correct cost of production and accordingly assess the degree of reasonability of the price charged by the business for its products. Thus, unambiguous and transparent financial statements help in building business reputation.

**vii. Researchers-** Various research institutes such as NGOs and other independent research institutions like CRISIL, stock exchanges, etc. undertake various research projects. The accounting information facilitates their research work.

**viii. Public-** Public is keenly interested in knowing the proportion of profit that the business spends on various public welfare schemes; for example, making charities, funding schools, etc. This information is revealed by the financial statements of a business.

As studied in the last lesson accounting is basically concerned with recording of financial transactions so as to derive some results which can be communicated to the users of accounting information. Also we know that accounting is a step by step process that begins with analysing transactions of financial nature and ends with communicating the results to

the users. However, in each successive step of accounting some kind of information is generated that may be useful to the users of accounting information. Accounting as source of information can be well understood with the help of following diagram.



Accounting as information system collects data of financial transactions entered into by the business which is processed during different stages of recording (journalizing, subsidiary books, ledger posting, final accounts) and is finally communicated to the users of accounting information in form of financial reports as an output.

The accounting information revealed through the financial statements of a business is useful and valuable only when it shows true and fair view of the business activities. In order to depict the true and fair picture, accounting information should have the following characteristics.

- i. **Reliability-** Accounting information should be reliable in such a manner that its users can completely depend on such information. All accounting information should be verifiable and should be verified from the source documents (vouchers) such as cash memos, bills, etc. Hence, the available information should be unbiased and free from any errors and ambiguity.
- ii. **Relevance-** The users of accounting information need relevant information for effective decision making, planning and predicting the future conditions. For this, it is necessary that the essential and appropriate information is easily and timely made available to its various users. Any irrelevant and useless information should be avoided.
- iii. **Understandability-** Accounting information should be presented in such a way that every user is able to understand and interpret the information without any difficulty in a meaningful and appropriate manner.
- iv. **Comparability-** It is the most important quality of accounting information. Comparability means accounting information of a current year can be compared with that of the previous years. Comparability enables intra-firm (i.e. within an organisation) as well as inter-firm (i.e. with other organisations) comparison. It assists in assessing the outcomes of various policies and programmes adopted in

different time horizons by the same or different businesses. Further, it helps to ascertain the growth and progress of the business over time and in comparison to other businesses.



## Basic Accounting Terms

### Objective

After going through this lesson, you shall be able to understand the 'Basic Accounting Terms' that we will more commonly use in our subsequent lessons.

**1. Business Transaction:** When two parties agree to exchange a good or service for cash, it is called a business transaction. For example: When you purchase chips from a shopkeeper then it constitutes a business transaction. Here, chips are the goods exchanged for money. This will also initiate an accounting process because for a shopkeeper it will constitute sale of his goods and will become an economic event for his business.

### Characteristics of a Business Transaction

1. It can be expressed in monetary terms. For example: Goods worth Rs. 10,000 sold, etc.
2. Goods change hands and services are offered as result of such a transaction. Hence, there is a transfer of ownership of goods from one person to another. For e.g.: Aman Ltd. sells furniture to Bindu.
3. It follows the double entry system of book keeping which means every transaction will affect two accounts simultaneously. For e.g. Furniture sold for Cash Rs. 5000. Here cash is being received i.e. debited and furniture is being given up i.e. credited.
4. The financial position of the business is changed as a result of such a transaction i.e. what a firm owns (Assets) and what it owes to others (Liabilities) might change. For e.g.: Furniture purchased from Ram on credit. Here, furniture is added to the assets and Ram becomes creditor (liability) for the firm thereby changing its financial position.

5. It must not change the equality of the balance sheet i.e.  $\text{Assets} = \text{Liabilities} + \text{Capital}$  will always hold true.
6. The financial status of the business unit is affected by such transactions and so the nature of each transaction should be analysed.

2. **Event:** Happenings which occur due to transactions, causing a change in the financial position of the business. For example: When goods are purchased there is a change in the financial position of the business as the amount of cash changes and so does the goods.

3. **Entity:** An entity means a unit which has an independent or real existence. This means that its existence is not affected by the death of its members for instance.

4. **Proprietor:** Proprietor is a person who makes investment in the business. He is the brains behind the business and believes in the objective of the organisation.

5. **Capital:** Capital is the amount invested by the proprietor in the business. Capital has credit balance. Increase in capital is credited and decrease in capital is debited.

6. **Drawings:** Goods or cash that is withdrawn by the proprietor from business for his/her personal use is termed as Drawings. This is because the business is distinct or separate from its members.

7. **Books of Accounts:** Books of accounts are the accounting records in which transactions of a business are recorded. They are vital for ascertaining the results of the business after a certain period of time and serves as an evidence of the same.

8. **Account:** An account is a record of transaction in the debit and credit column related to a particular head. It gives all information related to a particular item. For e.g.: Sales Account will tell us about the sales made by the business during a particular period.

9. **Debit:** Debit comes from the Italian word *debito*, which is derived from the Latin word *debeo*, which means, 'owed to proprietor'.

10. **Credit:** Credit comes from the Italian word *credito*, which is derived from the Latin word *credo*, which means belief, i.e., 'owed by proprietor'.

11. **Trade Receivables:** It is the amount receivable for sale of goods or services rendered during the normal course of business. It includes both debtors as well as bills receivable.

- **Debtors:** Persons or organisations that are liable to pay money to a firm are called Debtors. For e.g.: If you lend some money to your friend then in that case he will become your debtor since he is required to pay you back the amount.

- **Bills Receivable:** Bills Receivable is a negotiable instrument (i.e. as mutually agreed by the parties involved) that is received by the business and accepted by a debtor, to pay the specified amount on the maturity date.

12. **Trade Payables:** It is the amount payable to the creditors for the purchase of goods and services. It includes both creditors and bills payable.

- **Creditors:** Persons or organisations to whom the firm is liable to pay money are called Creditors.

- **Bills Payable:** Bills Payable is a negotiable instrument accepted by the business and returned to the creditor for paying the specified amount on the maturity date.



13. **Assets:** Assets include all properties or legal rights owned by a firm for its operations, such as cash in hand, plant and machinery, bank, land, building, etc. All assets have debit balance. Increase in assets is debited and decrease in assets is credited. The assets can be classified as:

- **Non-Current Assets:** Those assets which are not held with the purpose of reselling and remain in the business for a long period of time are termed as Non-Current Assets. Non-Current Assets can be classified as follows:

- **Fixed Tangible Assets:** Assets that can be seen or touched, i.e. those assets that have physical existence, are termed as Tangible Assets; for example, Plant and Machinery, Land and Building etc.

- **Fixed Intangible Assets:** Assets that cannot be seen or touched, i.e. those assets that do not have physical existence, are termed as Intangible Assets; for example, Goodwill, Patents, Trade mark, etc.

- **Current Assets:** Assets that can be easily converted into cash or cash equivalents are termed as current assets.

- **Fictitious Assets:** These are the heavy revenue expenditures, the benefit of whose can be derived in more than one year. It is also known as deferred revenue expenditure. For e.g.: The benefit from an advertisement of a product such as soap, etc., is received for more than a year if it creates a lasting impact on the minds of the consumers. Thus, Advertising Expenses will be a fictitious asset in this case.

14. **Liability:** Liability is an obligation of the business. The amount of funds that a business owes to its owners is known as internal liabilities. The amount of funds that a business owes to the outsiders is known as external liabilities. Liabilities can also be classified as follows.

- **Current Liabilities:** Those liabilities that are incurred with an intention to be paid or are payable within a year.

- **Non-Current Liabilities:** These are the long-term liabilities of a business that are to be repaid by the business after a period of one year. For example, long-term loans, loan from bank, mortgage, etc.

- **Contingent Liabilities:** Liabilities that may or may not become payable, depending on the outcome of a future event.

15. **Goods:** Those items which are either produced or purchased for the purpose of sale in the business are termed as Goods.

16. **Cost of Goods Sold:** Cost of goods sold (COGS) is the cost of merchandise that is sold to the customers.

17. **Stock:** Goods which are held by the firm for the purpose of sale in the normal course of business is termed as stock. Stock can be classified as follows.

- **Stock of Raw Material:** It means the stock of goods which is used for manufacturing of goods and converting it into finished goods.

- **Stock of Finished Goods:** It comprises those goods which are manufactured for the purpose of sale but remained unsold.

- **Stock of Work-in-Progress:** Those goods which are in the process of becoming finished goods are termed as Work in progress.

18. **Sales:** Sale of goods either in cash or credit is termed as Sales.

19. **Sales Return/Returns Inward:** Goods which are sold to the customers and are returned by them are known as Sales Return. It is also known as Return Inwards.

20. **Purchases:** Purchases means the goods which are purchased for resale or for producing the finished goods from it. It includes both cash as well as credit purchases.

21. **Purchases Return/Returns Outward:** Goods which are purchased and are returned to the suppliers are known as Purchases Return. It is also known as Return Outward.

22. **Source Documents:** Documents that substantiate business transactions. For example, invoice or bill, cash memos, debit/credit notes etc.

23. **Vouchers:** Documents containing the analysis of transactions (in terms of account to be debited and credited) for recording purposes.

24. **Discount:** Deduction allowed by the business to the customer either for promoting the trade or for receiving the payment from the debtors.

- **Trade Discount:** Discount allowed at the time of sale or purchase of goods and which is recorded in the invoice but not in the books.

- **Cash Discount:** Discount allowed to encourage immediate and prompt payments on account of due amount.

25. **Bad-debts:** Amount that is owed from the debtors and written off as it becomes irrecoverable

26. **Profit:** Profit is the amount that is earned over its cost during an Accounting Period. It is also known as Income.

27. **Loss:** Excess of expenses over revenues is termed as Loss.

28. **Gain:** Gains are incidental to the business. They arise from irregular activities or non-recurring transactions.

29. **Income:** Profit earned during an accounting period from any source. Income also means excess of revenue over its cost during an accounting period. Income has credit balance. It is also known as profit.

- **Accrued Income:** Income that is earned during the accounting period but not received in the same year is termed as Accrued Income.

- **Income Received in Advance:** Income which is not related to the current year but received during the year is known as Income received in advance. It is also known as Unearned income.

30. **Expense:** It is incurred to run the business activities smoothly. It is the cost incurred on the various business activities. Expenses can be classified as follows.

- **Prepaid Expenses:** Expenses which are paid in advance by the business for the current accounting period are known as Prepaid Expenses.

- **Outstanding Expenses:** Expenses related to the current period that are still to be paid are termed as Outstanding Expenses.

31. **Amortisation:** It refers to the writing off the value of intangible assets such as copyrights, trademarks etc. over its useful life.

32. **Depreciation:** Depreciation is reduction in the value of fixed assets associated with their continuous use in the business or due to obsolescence, accident or efflux of time.

33. **Balance Sheet:** A statement of financial position of the business at a given date.

34. **Expenditure:** It is the amount spent or liability incurred on the purchase of assets, goods or services. The expenditure can be classified into:

- **Capital Expenditure:** Expenditures which are incurred on the purchase of fixed asset and which are non recurring in nature are termed as Capital Expenditure.

- **Revenue Expenditure:** Expenses related to the day to day activities and which are recurring in nature are termed as Revenue Expenditure.

- **Deferred Revenue Expenditure:** These are the heavy revenue expenditures, the benefit of whose can be derived in more than one year. It is also **known as fictitious assets.**

35. **Receipts:** All inflows from various sources during an accounting year. The receipts can be classified into:

- **Revenue Receipts:** Those receipts which are received during the normal course of business i.e. receipt from sale of goods etc.

- **Capital Receipts:** These receipts are earned from those transactions which are not revenue in nature like proceeds from the sale of machinery etc.

## Glossary of Accounting Terms



**Abnormal Income:** It refers to all those incomes which are not earned from the operating activities of the business and it is not frequently earned by a business.

**Abnormal Losses:** It includes all the losses that are accidental to a business enterprise and are not frequently incurred by the business.

**Acceptance of Bill of Exchange:** When the bill drawn by the creditor is accepted by the debtor for the amount due on credit sales it is known as Acceptance of Bill of Exchange.

**Accommodation Bill:** A bill which is drawn and accepted to help other person and there is no trade consideration behind it is known as Accommodation bill.

**Account:** An account is a record of transaction in the debit and credit column related to a particular head.

**Accountancy:** Accountancy is the science or study of accounting. It explains the need and purpose of accounting and also explains various principles and conventions that are used in the accounting process.

**Accounting:** Accounting is a process of identifying the events of financial nature, recording them in Journal, classifying them in their respective ledgers, summarising them in Profit

and Loss Account and Balance Sheet and communicating and interpreting the results to its various users.

**Accounting Concepts:** Accounting concept comprises of basic accounting assumptions which are used for recording business transactions, preparing financial statements and presenting accounting information in the best possible manner. Accounting concepts are also known as accounting assumptions.

**Accounting Conventions:** Accounting conventions are the customs and traditions that guide an accountant while preparing the Financial Statements. These are those guidelines that have been arrived at after years of practice and will change in case of a change in environment. These are not legally binding on an accountant but are just generally accepted practices.

**Accounting Cycle:** Recording, Classifying, Summarising, and Interpretation of Accounting Information is termed as Accounting Cycle. It is also known as Accounting Process.

**Accounting Equation:** Accounting Equation is an expression which shows the equality between the assets of a business and its liabilities and capital.

**Accounting Information:** It refers to the accounting data that is presented in such a manner that they are understandable to various accounting users.

**Accounting Information System:** An Accounting Information System (AIS) is a system that identifies, collects, processes, summarises, generates and presents information about a business organisation to a wide variety of users.

**Accounting Period:** The time interval for which accounts are maintained by an organization is known as accounting period or accounting year which varies from company to company.

**Accounting Period Concept:** Accounting period concept is used to prepare the accounting statements on a particular date in order to provide the accounting information to its users. Business is based on the going concern assumption but it is necessary to keep accounts in such a way that the results are known at frequent intervals.

**Accounting Principles:** Accounting principles are the general rules, concepts and conventions that are followed while preparing the accounting records. Accounting principles are classified into accounting concepts and accounting conventions.

**Accounting Software:** Accounting Software is application software which identifies, collects, processes, summarises, generates and presents information about a business organisation to a wide variety of users.

**Accounting Standards:** Accounting Standards includes a set of accounting guidelines that are issued by the main accounting body. In India it is issued by ICAI (Institute of Chartered Accountant of India).

**Accounting Vouchers:** Accounting Vouchers are prepared on the basis of source vouchers to analyse the transaction and its affect on different affected accounts.

**Accounting Year:** Accounting year refers to the annual time period when the books of accounts are closed. An accounting year consists of twelve months. It may be same or different from calendar year

**Accounts from Incomplete Records:** Accounts from incomplete records is a system where only single aspect of a transaction is recorded. Under this system only personal accounts and cash book are maintained, and relies on one sided accounting entry to maintain financial information. This system is also known as single entry system.

**Accrual Basis of Accounting:** Accounting is maintained on the accrual or cash basis. Thus,

under accrual basis of accounting the revenue and cost are recognized as and when they occur instead of when they are actually paid or received in cash.

**Accrual Concept:** According to the Accrual Concept business transaction are recorded when they occur and not when payment for the same is made. Thus, it recognises expenses when incurred and incomes when earned. For example: A Company records telephone expenses when the bill is received and not when the payment is made. In such a case the company ignores the date of payment.

**Accrued Income:** Income that is earned during the accounting period but not received in the same year is termed as Accrued Income.

**Additional Capital:** It is the amount that is invested in the business over and above the initial capital by the proprietor during the accounting year.

**Adjustments:** Those transactions which are either wrongly recorded or omitted to be recorded in the books of accounts are known as adjustments which are required to be incorporated in order to present a clear image of financial position.

**Adjusted Cash Book:** Cash book prepared to incorporate all those entries which are not incorporated previously is known as adjusted cash book. It is also known as amended or corrected cash book. Also see corrected cash book.

**Adjusted Cash Book Balance:** Cash Book Balance obtained after adjusting errors and disagreements is known as Adjusted Cash Book Balance.

**Adjusted Purchases:** When opening and closing stock is adjusted with the purchases that is adding net purchases in the opening stock and deducting closing stock is known as adjusted purchases.

**Adjusting Entries:** Those journal entries which incorporate the adjustments in Financial Statements are termed as Adjusting Entries.

**Administrative and Office Expenses:** These are the expenses that are incurred for making and implementing the plans for efficient running of the business and maintenance of the offices.

**Advertisement Expenses:** These are promotion expenses incurred for acquiring space in various media such as newspapers, radio, magazines etc.

**Amortisation:** It refers to the writing off the value of intangible assets such as copyrights, trademarks etc. over its useful life.

**Analytical Petty Cash Book:** Analytical petty Cash Book records all the expenditures in a separate column like printing, postage etc.

**Annuity Funds:** These funds are created to pay a fixed amount at a regular time interval (generally annually) to the specified beneficiaries.

**Application Software:** It is user oriented programs that are designed and developed for performing certain specified tasks.

**Apprentice Premium:** It is an indirect income of the business which is received for providing training to a person.

**Appropriation Account:** This account is prepared primarily to show the appropriation (distribution) of profits among the partners after considering all the relevant adjustments such as Interest on Capital, Drawings etc.

**Assets:** Assets include all properties or legal rights owned by a firm for its operations, such as cash in hand, plant and machinery, bank, land, building, etc. All assets have debit balance. Increase in assets is debited and decrease in assets is credited.

**Asset Disposal Account:** Asset disposal account is prepared when the asset is sold in

order to provide complete and clear view of all the transactions related to sale of asset.**Audit Fees:** Audit fees are the expenses incurred in getting a firm's accounts audited by a certified accountant. The charges paid to the auditor in exchange of his services are termed as audit fees.

**Bad Debtors:** Bad debtors are the persons from whom amount is not recoverable.

**Bad Debts:** Bad debts is the amount that is owed from the debtors and written off as it becomes irrecoverable.

**Bad Debts Recovered:** It is that amount of bad debts that is written off earlier but afterwards it is recovered from the debtors.

**Balance b/d:** Balance b/d is the closing balance of the previous accounting year that is carried forward in the current accounting year as opening balance.

**Balance c/d:** Balance c/d is the balancing figure ascertained at the end of the year to make both debit and credit sides equal. It is the amount that is required to be carried down in the next accounting year.

**Balance Method:** It is a method for the preparation of trial balance where all the debit balances and credit balances are recorded separately and tallied with each other at the end.

**Balance Sheet:** Balance Sheet is a statement prepared to ascertain values of assets and liabilities of a business on a particular date.

**Balancing of Account:** Difference between the total of debit and credit column is ascertained. Account may have a debit balance if balance c/d is written on the credit side or credit balance if balance c/d is written on the debit side. This process is called balancing of account.

**Bank Charges:** Bank charges commission for providing various services such as discounting a bill etc. which is known as bank charges.

**Bank Overdraft:** Bank overdraft is the excess of withdrawal over deposits. When the account holder withdraws excess amount over his/her available bank balance, he/she runs a negative bank balance. The negative bank balance is an obligation to the account holder and is called bank overdraft.

**Bank Pass Book:** Bank Pass Book is a copy of ledger account maintained by the Bank to record the transactions of its Clients.

**Bank Reconciliation Statement:** Bank Reconciliation Statement is a statement prepared for determining causes of differences and reconciling bank balance (as per Cash Book) with the balance as per Pass Book or vice versa.

**Bill:** It is the document prepared by the seller at the time of making the sale on credit containing the details regarding the party to whom the goods were sold and information about the goods. It is also known as invoice. Also see invoice.

**Bill at Sight:** It is an instrument that is payable on demand by holder i.e. holder of such a bill can demand Drawee to discharge such a bill at his/her will. It is also known as Bill at demand.

**Bill after Sight:** Bill after sight means when the period of bill is calculated from the date on which such a bill is accepted by the drawee.

**Bill of Exchange:** A bill of exchange contains an unconditional promise to pay a certain sum of money on an agreed date to the Drawer or the bearer by the Drawee of the bill.

**Bills Payable:** Bills Payable is a negotiable instrument accepted by the business and

returned to the creditor for paying the specified amount on the maturity date.

**Bills Payable Book:** It is a subsidiary book which is used to record all the details of bills payable.

**Bills Receivable:** Bills Receivable is a negotiable instrument that is received by the business and accepted by a debtor, to pay the specified amount on the maturity date.

**Bills Receivable Book:** It is a subsidiary book which is used to record the details of bills receivable.

**Bills Sent for Collection:** When the bill is sent to the bank with instructions to retain the bill till maturity and realised on due date which means that bank will retain the bill till maturity and present it for payment on due date.

**Books of Accounts:** Books of accounts are the accounting records in which transactions of a business are recorded.

**Book Keeping:** Book-keeping is concerned with identifying the transactions of financial nature, recording them and maintaining their systematic record in the books.

**Books of Original Entry:** This is a book of accounts in which transactions are recorded in order of their occurrence, i.e., in chronological order from the source document. It is also termed as Journal. See Journal.

**Book Value:** Amount at which assets and liabilities appear in the books of accounts or financial statements is termed as Book Value.

**Bonds:** Debt instruments in which the investors lend money to the borrowing companies for a specific time period. Bonds are regarded as fixed income securities as they carry a fixed rate of interest.

**Brokerage:** Brokerage is the fee charged by a broker for the services provided by him/her. The broker serves as an intermediary between the buyer and the seller for negotiating the terms of purchase and sale transactions.

**Business Entity Concept:** According to the business entity concept a business is a separate entity from its owners which means that personal transactions of the owners of the business are to be treated separately from the business transactions. For example- Mr. A, paid rent of Rs 20,000 out of which Rs 10,000 belongs to the rent paid for his own house. Thus, only Rs 10,000 should be charged to business.

**Business Events:** Business events are those events which occur in the normal operations of the business like sale and purchase of business.

**Business Premises:** Business premises generally refer to the place of business. In other words, office building (or premise) where all business activities take place.

- **Capital:** Capital is the amount invested by the proprietor in the business. Capital has credit balance. Increase in capital is credited and decrease in capital is debited.
- **Capital Expenditure:** Expenditures which are incurred on the purchase of fixed asset and which are non recurring in nature are termed as Capital Expenditure.
- **Capital Fund:** Those funds which are utilised to achieve the general set of objectives of NPO. It is also known as General Fund or Unrestricted Fund. See unrestricted fund.
- **Capital Receipts:** These receipts are earned from those transactions which are not revenue in nature like proceeds from the sale of machinery etc.



- **Capital Reserve:** It is created out of capital profit, i.e., gain from other than normal activities of business operations, such as sale of fixed assets etc.
- **Carriage Inward:** Carriage inward means the transportation cost incurred during the purchase of goods.
- **Carriage Outward:** Carriage Outward means the transportation cost incurred on the sale of goods.
- **Cash Basis of Accounting:** The cash basis of accounting recognises revenue and expenses at the time of actual receipt or payment of cash. For example- if Rs 20,000 which is earned in 2012 but received in 2013 then it will be recorded in the receiving year i.e.2013.
- **Cash Book:** Cash Book is a book of original entry. It records all transactions related to receipts and payments of cash and deposits in and withdrawals from a bank in a chronological order.
- **Cash Memo:** It is a document prepared by seller when the goods were sold for cash.
- **Cash Purchases:** When the goods are purchased for cash is termed as Cash purchases.
- **Cash Transactions:** All those transactions which involve cash inflow or cash outflow are termed as cash transactions.
- **Cash Vouchers:** Cash Voucher is the voucher prepared at the time of receiving or paying through Cash or Cheque.
- **Central Sales Tax:** Central Sales Tax is a form of indirect tax which is levied on the commodities which are subject to Sales Tax.
- **Charity:** Charity means voluntary help to a needy person in the form of cash or kind.
- **Chart of Accounts:** Chart of accounts consists of all the ledger accounts that are maintained by the business organisations.
- **Cheque:** A cheque is an unconditional order, in writing addressed by a customer, with signature, to the bank to pay on demand a certain sum of money to the order of a specified person or to the bearer.
- **Cheque in Hand:** A cheque in hand means those cheques which are received from the customer but the same has not deposited in the bank on the same day.
- **Chronological Order:** It is the order in which the transactions are occurred and are recorded in the books of accounts.
- **Clerical Errors:** Clerical errors arise due to mistake committed in ordinary course of accounting work.
- **Closing Entries:** The entries which are required to transfer the balances of all nominal accounts to the Trading and Profit and Loss Account are termed as closing entries.
- **Closing Stock:** Closing stock is the amount of goods that remained unsold at the end of an accounting period.
- **Compensating Errors:** Those errors which nullify the effect of each other are known as Compensating Errors.
- **Compound Journal Entry:** When two or more accounts are debited or two or more accounts are credited then this entry is known as compound Journal Entry.
- **Compound Vouchers:** Compound vouchers are made for those transactions that involve more than one debits/credits.
- **Computer:** It is an electronic machine that is used to process a raw data into meaning information required by the users.
- **Computerised Accounting System:** Computerised Accounting Systems is an accounting information system that processes the financial transactions and events in accordance to

the Generally Accepted Accounting Principles (GAAP) to produce reports as per the requirements of the users.

- **Conservatism Concept:** The concept of Conservatism states that “One shall not anticipate a profit but shall always provide for all prospective losses”. This concept is also known as Prudence Concept.
- **Consistency Concept:** Consistency Concept means accounting practices once adopted must be applied consistently in future.
- **Consumable Goods:** Goods which are consumed while carrying out its business activities are known as consumable goods.
- **Contingent Liabilities:** It refers to the amount that may or may not become liability depending on the outcome of a future event.
- **Contra Entries:** Those entries which represent deposits or withdrawals of cash from bank or vice versa are known as Contra Entries.
- **Conveyance Expenses:** These are the travelling expenses incurred while moving from one place to another. Expenses such as auto fare, taxi fare etc. come under the category of conveyance charges.
- **Corrected Cash Book:** When Cash Book is prepared to incorporate all those entries which are not incorporated previously, then it is known as Corrected Cash Book. It is also known as Amended or Adjusted Cash Book.
- **Cost:** Cost means the expenditure incurred on a product or activity.
- **Cost of Acquisition:** The cost on which the assets are acquired is termed as cost of acquisition. It is also known as historical cost of an asset. Assets appear at their historical costs in the books of accounts of a firm.
- **Cost of Goods Sold:** Cost of goods sold (COGS) is the cost of merchandise that is sold to the customers.
- **Credit:** Credit comes from the Italian word *credito*, which is derived from the Latin word *credo*, which means belief, i.e., ‘owed by proprietor’.
- **Creditors:** Persons or organisations to whom the firm is liable to pay money are called Creditors.
- **Credit Balance:** When the credit side of an account exceeds from its debit side then balance is termed as credit balance.
- **Credit Balance as per Cash Book:** It means when Credit side of the Cash Book is greater than from its Debit side, or simply payment side exceeds from receipts side. It is also known as Overdraft Balance or Unfavourable balance of Cash Book. Also see Overdraft or Unfavourable Balance.
- **Credit Balance as per Pass Book:** It means when the deposit side exceeds the withdrawal side and it is also termed as favourable balance as per pass book. Also see favourable balance as per pass book.
- **Credit Note:** Credit note is a note send by the seller to the buyer informing him the credit made to his a/c on account of goods returned by him.
- **Credit Purchases:** When the goods are purchased on credit it is termed as credit purchases.
- **Credit Transactions:** All those transactions which do not involve cash inflow or outflow or which is purchased or sold on credit are termed as credit transactions.
- **Credit Voucher:** Credit Vouchers are prepared for payments received in cash and through cheques like cash sales etc.

- **Current Assets:** Assets that can be easily converted into cash or cash equivalents are termed as current assets.
- **Current Liability:** Those liabilities that are incurred with an intention to be paid or are payable within a year.
- **Custom Duty:** It is the indirect tax levied on the goods imported from (or exported to) the foreign country.
- **Customised Software:** Customised software is the software that has standardised features to meet the special requirements of the users.

- **Data Base:** Database is a collection of inter-related data, events and transactions which is organised in a particular manner and provide access to the various users simultaneously.
- **Date of Acquisition:** The date on which the assets are acquired is termed as date of acquisition.
- **Date of Maturity:** It is a maximum time upto which bill must be paid which is calculated by adding days of grace in the due date of bill.
- **Days of Grace:** Days which are added to the due date for calculating the date of maturity are known as Days of grace.
- **DBMS:** DBMS is that software which helps in creating, developing and maintaining the database.
- **Debit:** Debit originated from the Italian word *debito*, which in turn is derived from the Latin word *debeo*, which means 'owed to proprietor'.
- **Debit Balance:** When debit side of an account is more than its credit side then the balancing figure is termed as Debit Balance.
- **Debit Balance as per Cash Book:** Debit balance of Cash Book means excess of receipts over payments. It is also known as favourable balance as per cash book. Also see favourable balance as per cash book.
- **Debit Balance as per Pass Book:** It means withdrawal side of pass book exceeds from the deposit side. It is also known as unfavourable or overdraft balance as per pass book. Also see unfavourable or overdraft balance as per pass book.
- **Debit Note:** Debit note is a note sends by the buyer to the seller informing him the debit made in his a/c on account of goods returned by him.
- **Debit Voucher:** Debit Vouchers are prepared for payments in cash and through cheques like cash purchases etc.
- **Debtors:** Persons or organisations that are liable to pay money to a firm are called Debtors.
- **Deferred Revenue Expenditure:** These are the heavy revenue expenditures, the benefit of whose can be derived in more than one year. It is also **known as fictitious assets.** See fictitious assets.
- **Deficit:** Deficit means the excess of revenue expenditure over revenue income ascertained while preparation of Income and Expenditure Account.
- **Depreciation:** Depreciation is reduction in the value of fixed assets associated with their continuous use in the business or due to obsolscence, accident or efflux of time.
- **Depletion:** Depletion means reduction in availability of natural resources due to extraction, mining and quarrying.

- **Deposit in Transit:** It means the time lag between the occurrences of two events which means time taken for crediting the amount in bank account which is sent for depositing.
- **Direct Expenses:** Direct Expenses are those expenses that are directly related to manufacturing and production of goods and services.
- **Diminishing Balance Method:** It is a method where depreciation is not charged on the original cost of the asset but it is charged at a fixed rate on the diminished or reduced value of the asset. It is also known as Written Down Value Method. Also see Written Down Value Method.
- **Discount:** It is the deduction that is allowed by the business to the customer either for promoting the trade or for receiving the payment from the debtors.
- **Discount Allowed:** When payment is received from the customer business allows discount which is known as Discount Allowed.
- **Discount Received:** Discount received is an income for the business which is received when the payment is made to the creditors.
- **Discounting of Bill:** It means a situation where the holder of the bill obtains amount from the bank against such bill. This is called Discounting of Bill with the Bank.
- **Discounting Charges:** When the bill is discounted with the bank then some charges are charged by the bank which is known as Discounting Charges.
- **Dishonour:** Dishonour means when a person fails to meet his or her obligation on time then cheque or bill is said to be dishonoured.
- **Dishonour of Bill of Exchange:** Dishonour of a bill happens when the acceptor of the bill fails to make the payment on the date of maturity of the bill.
- **Distribution Expenses:** Distribution Expenses are the expenses that are incurred in relation to distributing and transporting the goods.
- **Dividend:** The income received from investment in shares is termed as dividend income. It is an expense for the company and income for the shareholder.
- **Dock Charges:** It is the amount paid by a shipping company to load or unload goods.
- **Donations:** Donations are the gifts, which are normally received in cash and in some cases in form of assets. It is received from the members of a NPO. Donations are basically a form of charity.
- **Double Column Cash Book:** A double column Cash Book contains two columns of amount, namely cash column and bank column on both sides. It is also known as two column cash book.
- **Double Entry System:** Double entry system of book keeping involves recording of both the aspects of accounting i.e. debit and credit. Thus, it has two fold effects i.e. for every debit there exists a credit.
- **Doubtful Debt:** Debtors from whom the receipt amount is tentative i.e. it may be received or may not be received are termed as doubtful debts.
- **Drawee:** A person in **favour of** whom the bill is drawn by the drawer and who is obliged to make the payment to the holder of the bill.
- **Drawer:** A person who draws the bill and makes the order to pay the amount of the bill.
- **Drawings:** Goods or cash that is withdrawn by the proprietor from business for his/her personal use is termed as Drawings.
- **Dual Aspect or Duality Concept:** This concept states that every financial transaction has two fold effects i.e. for every debit there exists a credit. These two aspects always have equal effect. For *Example*- Goods are bought on credit, thus on the one hand we will debit

purchases account as the stock (asset) is increased and on the other hand we will credit creditors account and liabilities will increase.

- **Due Date of Bill:** Due date of bill is a date on which bill stands payable.
- **EBIT:** EBIT means profit earned through normal activities of a business. It is the excess of operating revenue over operating cost. It is also termed as Operating Profit.
- **Efflux of Time:** If an asset is acquired for a specific period of time, then, whether the asset is put to use or not, its value becomes zero at the end of its useful life.
- **Employee Provident Fund (EPF):** EPF is a retirement benefit scheme run by the government for the benefit of employees. Under the EPF scheme, the employees are required to contribute a certain portion of their salaries and the employers also contribute the same amount.
- **Endorsee:** Person on whose favour this bill has been transferred is termed as Endorsee.
- **Endorsement of Bill:** Endorsement of bill means transfer of a Bill of Exchange or Promissory Note to another person.
- **Endorser:** Person who is transferring the bill is termed as Endorser.
- **Endowment Funds:** These funds are basically the funds which are received *via* gifts and bequests. These funds are maintained with the condition that only the income from the investments of such funds can be utilised for the specific purpose.
- **Entertainment Expenses:** These costs are incurred by the employees in informal social gatherings on business clients so as to procure an order from the client. For example, expenses incurred in taking out a client for lunch.
- **Entity:** An entity means a unit which has an independent or real existence.
- **Entrance Fees:** Entrance fees are paid by an individual at the time of becoming a member of an organisation.
- **Entrepreneur:** The person or individual who sets up a business, assumes the responsibility for its management and bears the associated risks with a profit earning motive.
- **Entry:** When the transactions are recorded in the books of accounts is termed as Entry.
- **Establishment Expenses:** These are the introductory expenses incurred at the time of setting up of a business. For example, legal charges, consultation fees etc.
- **Errors of Commission:** Errors related to wrong recording of amount, wrong totaling, wrong calculation, wrong balancing of Ledgers etc. are known as Error of Commission.
- **Errors of Omission:** When a transaction is altogether omitted to be recorded or omitted to be posted in the books then such type of an error will be called as Error of Omission.
- **Errors of Principle:** If a business transaction is recorded without following right accounting principles of accounting then the error it will create will be called as Error of Principle.
- **Expense:** It is made to run business smoothly and to carry day to day business activities. It is the cost that is incurred on the activities of business. All expenses have debit balance.
- **Export duty:** It is the tax levied on the export (sale) of goods to a foreign country from the home country.

- **External Liabilities:** External liabilities represent the amount of funds that a business owes to the outsiders. For example, creditors, suppliers, bank etc.
  - **External Transactions:** When two or more outside parties are involved in a transaction then this type of transaction is termed as External Transaction.
  - **External Users of Accounting Information:** External users of Accounting Information are the individual or the organisations that have direct or indirect interest in the business firm.
  - **Extraordinary Items:** These are the incomes or expenses that emerge from the unusual and infrequent events which are not normal to a business. These are *unusual in nature* (outside to the normal nature of a business) and **non-recurring** (i.e. not expected to occur frequently). For example, insurance claim received due to loss by fire, bad debts recovered, winning of a lottery, earthquake relief fund etc.
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- **Factory Expenses:** Factory expenses include all those expenses which are incurred in relation to the factory like rent, lighting, taxes etc. and these expenses are direct in nature.
  - **Factory Lighting:** It is related to those expenses that are incurred on electricity consumed in order to provide lighting in the factory.
  - **Factory Rent and Rates:** Factory rent means the rent that is paid for the factory premises. Factory rates mean those expenses which are required to be paid in addition to rent like municipal taxes etc.
  - **Favourable Balance as per Cash Book:** Favourable balance of Cash Book means excess of receipts over payments. It is also known as debit balance as per cash book. Also see debit balance as per cash book.
  - **Favourable Balance as per Pass Book:** It means when the deposit side exceeds the withdrawal side. It is also termed as credit balance as per cash book. Also see credit balance as per pass book.
  - **Fictitious Assets:** These are the heavy revenue expenditures, the benefit of whose can be derived in more than one year. It is also known as deferred revenue expenditure. See Deferred Revenue Expenditure.
  - **Financial Expenses:** These expenses are incurred for raising the funds required by business of an enterprise.
  - **Financial Position:** The value of firm's assets, liabilities and capital as depicted in the Balance Sheet. The financial position of a firm is known from its Position Statement i.e. the Balance Sheet.
  - **Financial Statements:** Financial statements are the statements showing profitability and financial position of a business at the end of the year. It includes income statement and position statement.
  - **Financial Transactions:** Financial nature transactions are those transactions which can be measured in terms of money or which involves the flow of cash.
  - **Firm:** Firm means any kind of business such as Sole Proprietorship, Partnership etc.
  - **Fixed Assets:** Fixed Assets are held for long term and increase the profit earning capacity of the business, over various accounting periods.
  - **Fixed Assets Funds-** These funds are maintained to make investments in the fixed assets such as Building Fund, Pavilion Fund, Auditorium Fund, etc.

- **Floating Capital:** Assets purchased with the intention of sale such as stock or investments are termed as Floating Capital.
  - **Forfeiture of Shares:** Forfeiture of Shares means cancellation of shares due to the non-payment of due calls.
  - **Freehold Premises:** Freehold premises mean those premises where the user and owner is the same person and who enjoy a complete and absolute ownership.
  - **Freight:** Freight means the expenses that are incurred in relation to the transportation of material to the firm's godown.
  - **Full Disclosure Principle:** Financial statements shall disclose all material facts either on the face of it or in notes to accounts.
  - **Full Settlement:** Full settlement refers to the act of bargaining where part payment is made against the amount due. For example, when Ram paid to Shyam Rs 15,000 in full settlement of his dues of Rs 18,000. Here, Ram will not have to pay the remaining amount of Rs 3,000. In other words, Rs 15,000 (partial payment) is accepted in full and Rs 3,000 is waived off.
  - **Fund Based Accounting:** Fund Based Accounting means the accounting method which is followed for the preparation of accounts in which funds are available for specific purpose.
  - **Furniture:** Furniture is an asset for a business concern. Chairs, tables, sofa etc. all come under the head of Furniture. Being a fixed asset, depreciation is charged on furniture. These are commonly known as Furniture and Fixtures.
  - **Further Bad Debts:** Additional Bad debts other than those already accounted for are known as Further Bad debts.
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- **Gain:** Gains are incidental to the business. They arise from irregular activities or non-recurring transactions.
  - **Generally Accepted Accounting Principles (GAAPs):** Generally Accepted Accounting Principles (GAAPs) are a set of basic rules and procedures prescribed by the Institute of Chartered Accountants of India (ICAI) which have to be followed while preparing financial statements. These are the Accounting principles, concepts and conventions which ensure that financial reporting is transparent and consistent from one organization to another.
  - **General Donations:** Such donations are received without any specific conditions of use and can be utilised for meeting any purpose.
  - **General Expenses:** Those expenses that are incurred for making and implementing the plans for efficient running of the business and maintenance of the office are known as General Expenses. These are the part of Administrative and Office Expenses.
  - **General Journal:** General Proper is a Book of Original Entry in which only those entries are recorded that cannot be recorded in Special Journal. It is also termed as Journal Proper. See Journal Proper.
  - **General Reserve:** When the reserve is created without any specified purpose, the reserve is called General Reserve.

- **Going Concern Concept:** Going concern is the basic underlying assumption of accounting, financial statements are prepared assuming that the company intends to continue the business and will be able to do so. In short, it means business will continue indefinitely.
  - **Good Debtors:** Good debtors are the persons from whom the receipt of amount is certain.
  - **Goods:** Those items which are either produced or purchased for the purpose of sale in the business are termed as Goods.
  - **Goods given as Charity:** Voluntary distribution of goods for free is termed as goods given as charity.
  - **Goods-in-Transit:** It means those goods that have been dispatched from the shipping point but not received at the delivery point.
  - **Government Grants and Aids:** Government grants and aids are basically the helps that are rendered by government to the NPOs in form of cash or non-cash items.
  - **Gross Profit:** Gross profit is the difference between revenue from sales and cost of goods sold. It is ascertained from Trading Account.
  - **Gross Loss:** When cost of goods sold is more than revenue earned from sales it results in Gross Loss.
  - **Grouping of Assets and Liabilities:** Grouping implies showing various assets and liabilities of similar nature under one single head.
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- **Hardware:** It includes all the physical components of a computer which can be touched.
  - **Historical Cost Concept:** Financial statement is to enable comparability of financial data and consistency in adoption of financial policies. In order to achieve the above objectives the transactions shall be recorded on historical cost. In case in the subsequent period there is an increase in the value of the assets then the same shall not be recognised as an increase in the value of asset.
  - **Holder of the bill:** After acceptance the bill is hold by a person who is known as Holder of the bill which can be Drawer, Endorsee or Bank. It is a payment made to a person in respect of the work voluntarily done for an organisation.
  - **Honouring of bill:** When on the date of maturity the amount of bill is paid by the Drawee then it is known as Honouring of bill.
  - **Horizontal Form of Financial Statements:** According to this format financial statements viz. Trading Account, Profit and Loss Account and Balance Sheet are prepared in "T" form.
  - **Human Resource Information System:** Human Resource Information System (HRIS) maintains the records of the employees and prepares salaries and wages payable to them.
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- **IFRS:** International Financing Reporting Standards are set of accounting standards developed by International Accounting Standards Boards (IASB) that are becoming the global for preparation of public financial statements.
  - **Imprest Amount:** Imprest amount is an amount of money given by the main cashier to the petty cashier in the beginning of a period.



- **Income:** Income means profit earned during an accounting period from any source. Income also means excess of revenue over its cost during an accounting period. Income has credit balance. It is also known as profit.
- **Income and Expenditure A/c:** This account shows all the revenue expenditure and revenue receipts during an accounting period.
- **Income Received in Advance:** Income which is not related to the current year but received during the year is known as Income received in advance. It is also known as Unearned income.
- **Income Statement:** An income statement includes Trading and Profit and Loss Account, which ascertains the financial results of a business in terms of gross (or net) profit or loss.
- **Indirect Expenses:** Indirect Expenses are incurred in connection with making the goods ready for sale and not directly associated with the production of goods and services.
- **Indirect Incomes:** Indirect incomes are those incomes that are not directly earned from the operating activities of business operations.
- **Insolvent:** Insolvent is a person who is incapable to pay the debts.
- **Intangible Assets:** Assets that cannot be seen or touched, i.e. those assets that do not have physical existence, are termed as Intangible Assets; for example, Goodwill, Patents, Trade mark, etc.
- **Interest on Capital:** Capital is invested by the proprietor in the business and interest which may be provided on this capital is termed as Interest on Capital.
- **Interest on Drawings:** Similar to interest on capital, the interest that may be charged on the withdrawal of cash or goods by the proprietor for personal use is termed as interest on drawings.
- **Interest on Loan:** Interest that is charged on the amount of loan either provided or borrowed is termed as Interest on loan.
- **Inter-Firm:** Inter firm means between two or more firms. For example, in accounting inter firm comparisons are conducted to judge efficient and inefficient firms. Also, the profitability and prospects of different firms is forecasted using inter-firm comparison.
- **Intra-Firm:** Intra firm means within an organization. For example, when comparisons are conducted within the different departments of the same firm or comparing performance of the same firm with its previous years' results is regarded as intra-firm comparison.
- **Internal Liabilities:** Internal liabilities represent the amount of funds that a business owes to its owners. For example, capital contributed by the owners is regarded as an internal liability.
- **Insurance Claim:** Generally, the stock of goods lying with the business is insured from an insurance company. In case of loss of stock (insured) by theft, fire or on the happening of any other abnormal event, the claim from the insurance company is recovered. The insurance company may or may not accept the claim in full. That is, acceptance of claim either fully or partly.
- **Investments:** The amount spent with a prospect of future economic benefits in the form of regular returns (interest/dividend) or capital appreciation is termed as investments.
- **Import Duty:** It is the tax levied on the import (purchase) of goods from a foreign country to the home country.
- **Implied Adjustments:** Adjustments which are not given explicitly in the additional information are termed as implied adjustments. For example, if salaries (paid for 11

months) appear in the Trial Balance at Rs 22,000, it is implied here that salary for 1 month i.e. Rs 2,000 remained outstanding.

- **Impersonal Account:** It relates to non living things which are further classified as Real accounts and Nominal accounts.
- **Invoice:** When the goods were sold on credit then the document prepared by the seller is known as Invoice. It is simply known as Bill. Also see bill.
- **Imprest system of Petty Cash Book:** In this system, a fixed sum of money is given to the petty cashier in the beginning of a period and at the end of the period the amount spent by him is reimbursed, so that he has a fixed amount in the beginning of every new period.

- **Journal:** Journal is a book of accounts in which transactions are recorded in order of their occurrence, i.e., in chronological order from the source document. It is also termed as the book of original entry. See books of original entry.
- **Journal Entry:** When the transactions are recorded in the original books of entry i.e. in journal is called a journal entry.
- **Journal Proper:** Journal Proper is a Book of Original Entry in which only those entries are recorded that cannot be recorded in Special Journal. It is also termed as General Journal. See General Journal.

- **Land and Building:** These are tangible assets with physical existence. It is grouped under the head of Fixed Assets.
- **Leasehold Premises:** Those premises which are taken on lease or rental basis from another person for a specified period and temporary right is given to the tenant to use the asset are known as Leasehold Premises.
- **Ledger:** A ledger means a book or register under which all the recorded transactions are classified and summarised. It is also known as Principal Book. Also see Principal Book.
- **Ledger Folio:** It is the page number of the Ledger Account on which the relevant account appears.
- **Legacy:** Legacy is a kind of donation that is received by NPOs as per the will of a deceased person.
- **Liability:** Liability is an obligation of the business such as Creditors, Bills Payable etc. to whom the payment is to be made.
- **Life Membership Fees:** These are the lump-sum fees that are paid only once in a lifetime by every member of a NPO.
- **Lighting:** Lighting is the expenditure incurred to provide electricity for factory premises in order to run the business activities.
- **Liquidity:** Liquidity implies convertibility into cash.
- **Liquid Assets:** Those assets which can be converted into cash within a very short period of time such as Cash, Bank, Bills Receivable etc. are termed as Liquid Assets.
- **Livestock:** Livestock includes the domestic animals used in a business. These are accounted under 'Livestock A/c' under the head of Fixed Assets.

- **Loan:** A loan can be availed or granted. A loan with debit balance is an asset for the firm, whereas, a loan with credit balance is a liability for the firm.
  - **Loan Funds:** Loan Funds are maintained to provide loan for specific purposes and the purpose of granting loans from such funds is to assist a person who is in need of funds.
  - **Loss:** Excess of expenses over revenues is termed as Loss.
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- **Maker:** Maker is the person who makes the Promissory Note and promises to pay specified sum of money at a pre determined date or before it.
  - **Management Information System:** Management Information System (MIS) is a planned system of collecting, processing, storing and disseminating the data in the form of information to perform the task of decision making and management of an organisation.
  - **Manager's Commission:** It is the amount that is paid to the managers in addition to their salary so as to motivate them to work with higher levels of interest and dedication.
  - **Manufacturing Expenses:** Manufacturing Expenses are incurred for production of goods and services and are of direct nature.
  - **Marketable Securities:** Marketable Securities are the short term investments of a business. These are regarded as highly liquid assets as they can be easily converted into cash.
  - **Market Value of an Asset:** Market value is the price of an asset that the firm can fetch by selling it in the market place. The assets are recorded at their cost of acquisition (i.e. historical cost) as against the market value.
  - **Marshalling of Assets and Liabilities:** Marshalling implies showing various assets and liabilities in a particular order i.e. either in order of liquidity or in order of permanence.
  - **Matching Concept:** According to the Matching Principle expenses which have been incurred to earn revenue shall be recognized in the same accounting period during which such revenue is recognized and not in the next or previous accounting period.
  - **Materiality Concept:** This concept states that Accounting Information which has the ability to affect the end users decisions is material in nature and must be disclosed in the financial statements. The decision whether information is relevant or not depends on two factors the amount involved and the importance of the event.
  - **Maturity of a Bill:** Maturity of a Bill means the date on which the bill is due for payment.
  - **Monetary Events:** Those events which can be measured in terms of money are termed as Monetary Events.
  - **Money Measurement Concept:** According to the Money Measurement Concept, transactions that are measurable in monetary terms are to be recorded in the books of accounts of the business. Thus, qualitative aspects i.e. loyalty of employees, working conditions etc. are ignored.
  - **Mortgage Loans:** Sometimes a loan is granted on the security of an asset. In the event of non-payment by the borrower, the lender has the right to seize the secured asset. Such loans are known as mortgage loans.

- **Negotiable Instrument:** These are the written documents for making or receiving the payment at a predetermined date or before date which are transferable by delivery.
  - **Net Loss:** When the indirect expenses are more than revenue then it results in Net Loss. It is ascertained from the Profit and Loss account.
  - **Net Profit:** When the indirect expenses are more than revenue then it results in Net Profit. It is ascertained from the Profit and Loss account.
  - **Net Purchases:** Net Purchases is ascertained after deducting Purchases Return from the Gross Purchases. Algebraically, it can be written as:
  - **Net Purchases:** Purchases- Purchases Return
  - **Nominal Account:** This account includes all types of expenses, incomes, gains and losses.
  - **Non-Operating Expenses:** Non-operating Expenses are those expenses that are not directly related or incurred for carrying out the business activities.
  - **Notary Public:** Notary Public is an officer appointed by the Central or State Government who has the power of noting Negotiable Instruments at the time of their Dishonour.
  - **Noting of Bill:** In case of dishonour of a Bill of Exchange it is noted by the Notary Public in order to keep a legal proof of dishonour which is known as Noting of Bill.
  - **Noting Charges:** Charges that are paid to the Notary Public in order to get the bill noted after dishonour are known as Noting Charges.
  - **Non-Current Liabilities:** These are the long-term liabilities of a business that are to be repaid by the business after a period of one year. For example, long-term loans, loan from bank, mortgage, etc.
  - **Non-Financial Transactions:** Transactions which cannot be quantified or expressed in monetary terms are regarded as non-financial transactions. For example, Mohan exchanged pens with Sohan for pencils.
  - **Non-Monetary Transactions:** Those transactions which cannot be converted into money terms are known as Non Monetary Transactions.
  - **Non-Operating Income:** Income which is not related to the core business activities of an organisation. For example, dividend received, rent received etc.
  - **Non-Profit Organisations (NPOs):** These are the organisations, which are set up with the basic motive of serving the society and not to earn profits.
  - **Non-Cash Vouchers:** It is the voucher prepared whenever non-cash transactions i.e. credit sales, credit purchases etc. takes place. It is also known as Transfer Vouchers. Also see Transfer Vouchers.
  - **Non-Current Assets:** Those assets which are not held with the purpose of resell and remained in the business for a long period of time are termed as Non-Current Assets like Investment and Fixed Assets etc.
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- **Objectivity Concept:** According to the Objectivity Concept Accounting should be free from personal bias. Accounting entries shall be based on facts and supported by written document like cash memo, invoices etc.
  - **Obsolescence-** It means reduction in the value of fixed asset due to the advancement and appreciation of technology, scientific innovations and inventions, change in fashion, adoption of cost efficient production techniques, etc.

- **Octroi:** Octroi is the duty that is levied on goods which are entering in other city.
- **One Sided Errors:** Those errors which affect the tallying of debit and credit columns of Trial Balance are known as One sided errors.
- **Operating Cost:** Expenses incurred during the normal course of business operations. Such costs are incurred to reinforce day-to-day activities of a business concern. These are generally classified into fixed costs and variable costs. Fixed costs are those which remain constant with each level of output. On the other hand, variable costs vary (or change) with each level of output.
- **Operating Cycle:** Operating Cycle is the time period required for converting an asset into cash and cash equivalents from the date of acquisition of an asset.
- **Opening Entry:** The entry which is used to record all the balances of previous year in the beginning of the current accounting period is termed as Opening Entry.
- **Operating Expenses:** It means those expenses which are directly related to the main operation of the business like office expenses, selling and distribution expenses etc.
- **Opening Stock:** Opening Stock means the amount of goods that is available in the beginning of the accounting period. It is the closing stock of the previous accounting period.
- **Operating Profit:** Operating Profit is a profit earned through normal activities of a business. It is the excess of operating revenue over operating cost. It is also termed as Earnings Before Interest and Taxes (EBIT). Also see EBIT
- **Operating Software:** It is the set of specialized programs that are meant to manage and control the resources of a computer.
- **Order of Liquidity:** When assets and liabilities are arranged according to the liquidity or priority, it is known as Marshalling of assets and liabilities in order of liquidity.
- **Order of Permanence:** When assets and liabilities are arranged according to their permanence in the business, it is known as Marshalling of assets and liabilities in order of permanence.
- **Organisation:** An institution consisting of a group of people formed for the accomplishment of some common goal/objective.
- **Original Cost Method:** When every year depreciation is charged on the original cost of the asset at a fixed rate it is known as Original Cost Method. It is also known as Straight Line Method. See Straight Line Method.
- **Outgoing Cheques:** It means those cheques which are issued by the firm but which are not debited by the bank due to the fact that the date on which the cheques are issued and clearing date are not the same.
- **Outstanding Expenses:** Expenses related to the current period that are still to be paid are termed as Outstanding Expenses.
- **Owner's Equity (Net Worth):** The amount of funds contributed by the owners of the company is termed as owner's equity or net worth. The owners have a residual claim in the assets of the company i.e. after settlement of dues of external parties (i.e. debenture holders, creditors etc).
- **Overcast:** It means when sum of the debit or credit side is totaled greater than the actual.
- **Overdraft Balance as per Cash Book:** It means when payment side exceeds from the receipts side. It is also known as Credit Balance or Unfavourable Balance of Cash Book. Also see credit or unfavourable balance.

- **Overdraft Balance as per Pass Book:** It means when withdrawal side exceeds from the deposit side and it is also known as unfavourable or debit balance as per pass book. Also see unfavourable or debit balance.
- **Partnership:** Partnership implies the agreement between two or more people who have decided to carry-out a business jointly.
- **Patents:** Patents are intangible assets which do not have any physical existence i.e. such assets cannot be seen or touched. Patents are the exclusive rights assigned to the inventor for a limited time period. These are generally fixed assets. The reduction in the value of these assets is considered as amortisation.
- **Payee:** Payee is a person who receives the amount of the bill.
- **Pay-in-Slip:** Pay-in-slip is a document which is used at the time of depositing cash or cheque into bank.
- **Permanence:** Permanence is something which is not temporary in nature. In accountancy, assets and liabilities are grouped on the basis of permanence. Wherein, assets which are more likely to stay in the business for a longer period of time or cannot be converted into cash easily are recorded first while current assets are recorded last. Similarly, non-current liabilities will be recorded first and lastly the current liabilities.
- **Personal Account:** Accounts which are related with the individuals and are named after the name of the persons or organisations. For example- Mr. A's Account etc.
- **Petty Cash Book:** Petty Cash Book is used for recording payment of petty expenses, which are of smaller denominations like postage, stationery, conveyance, refreshment, etc.
- **Plant and Machinery:** These are the assets of a firm used in the production and manufacturing of goods and services. As these assets continue to exist for a considerably long period of time in the business, therefore, they are regarded as fixed assets. Like all fixed assets, Plant and Machinery is also subject to depreciation.
- **Position Statement:** Alternate name used for Balance Sheet. Statement showing financial position of the business on a particular date. The financial position of a proprietor's business is indicated through its assets and liabilities on a given date.
- **Preliminary Expenses:** Certain expenses need to be incurred before the incorporation and commencement of a company, such as, expenses paid for raising initial share capital, expenses paid for printing of documents etc. These are generally paid off by the promoters of a company and are written off over a period of time.
- **Prepaid Expenses:** Expenses which are paid in advance by the business for the current accounting period are known as Prepaid Expenses.
- **Principal Book:** A book under which all the recorded transactions are classified and summarized is termed as Principal Book. It is commonly known as ledger. Also see ledger.
- **Printing and Stationery:** Indirect expenses incurred on purchase of general office supplies such as pen, paper, photocopy etc are clubbed and put under the head of Printing and Stationery.
- **Prize Funds:** Funds which are created for the distribution of prizes are termed as Prize Funds.

- **Profit:** Profit is the amount that is earned over its cost during an Accounting Period. It is also known as Income. See Income
- **Profit and Loss Account:** It is the second part of the Financial Statement which records all the indirect incomes and expenses and the result is ascertained in terms of Profit or Loss.
- **Profit and Loss Adjustment Account:** Profit and Loss Adjustment Account commonly known as Revaluation Account is opened to record the change in the value of assets and liabilities (increase or decrease) on reconstitution of a partnership firm.
- **Promissor:** Promissor is the person who makes the note and undertakes to pay the amount of promissory note.
- **Promissory Note:** It is a written promise made by one person to pay certain sum of money due to another person or any other legal holder of the document.
- **Promoters:** A person or group of persons who conceives an idea regarding the business opportunity and set up a business is/are known as promoter or promoters of the company.
- **Proprietor:** Proprietor is a person who makes investment in the business.
- **Provisions:** Provisions are the amounts which are set off against the profit or surplus to meet the known liabilities whose amount cannot be ascertained with certainty.
- **Provision for Depreciation:** Provision for depreciation is the collected value of the depreciation charged on various assets and accumulated in this reserve.
- **Provision for Doubtful Debts:** It is the amount that is set aside with the motive of minimising the effect of actual loss caused by Bad-debts in future.
- **Provision for Discount on Debtors:** It is the amount set aside to allow discount to debtors in future. It is provided on the amount of good debtors.
- **Provision for Discount on Creditors:** When the business makes immediate payments of its obligations it expects to receive some discount. Thus, a provision is created which is termed as Provision for discount on creditors.
- **Prudence Concept:** The concept of Prudence states that “One shall not anticipate a profit but shall always provide for all prospective losses”. This concept is also known as Conservatism Concept. Also see Conservatism Concept.
- **Postage and Telegram:** Expenses incurred on sending or delivering messages through post or by way of telegram. For example, expenses paid on purchase of stamps, labels etc. These are also indirect in nature.
- **Posting of Journal Entries:** Posting is the process of transferring business transactions from Journal to Ledger Accounts. Every transaction is first recorded in the Journal and subsequently transferred to their respective account.
- **Purchases:** Purchases means the goods which are purchased for resale or for producing the finished goods from it. It includes both cash as well as credit purchases.
- **Purchases Book:** Purchases Book is a subsidiary book in which credit purchases are recorded.
- **Purchases Return:** Goods which are purchased and are returned to the suppliers are known as Purchases Return. It is also known as Return Outward. Also see Return Outward.
- **Purchases Return Book:** Purchases Return Book is a subsidiary book where goods returned are recorded.

- **Quick Assets:** Those assets which can be easily and quickly convertible into cash are termed as Quick Assets. These are also known as Liquid Assets. Also see liquid assets.
- **Ready to use software:** Ready to use software is readily available in the market with prescribed and standard features.
- **Real Account:** Account which are related to non living things (Tangible or Intangible) like machinery, goodwill etc. are termed as Real Accounts.
- **Rebate:** Discount that is given by the holder of the bill for making the early payment is termed as Rebate.
- **Receipts:** Receipts are the amount that is received or receivable from the sale of assets, goods or services etc.
- **Revenue Receipts:** Those receipts which are received during the normal course of business i.e. receipt from sale of goods etc.
- **Receipt and Payment Account:** This account shows the summary of cash and bank transactions occurred during an accounting period.
- **Rectification Entries:** Those entries which are passed in the books of accounts in order to correct the errors are known as rectification entries.
- **Reducing Balance Method:** It is a method where depreciation is not charged on the original cost of the asset but it is charged at a fixed rate on the diminished or reduced value of the asset. It is also known as Written Down Value method. Also see Written Down Value Method.
- **Renewal of Bill of Exchange:** Renewal of Bill of Exchange means when a new bill is drawn in case the acceptor of a bill does not have sufficient fund to meet the obligations of the bill on time.
- **Repairs:** Repairs are the costs incurred in restoring an asset's working condition.
- **Reserves:** Reserves are the amounts set aside out of profits. It is an appropriation of profits which are used for the distribution of dividends or for meeting the contingent liabilities.
- **Reserve Fund:** These funds are prepared out of the profits of the company to meet future expenses or losses.
- **Residual Value:** Residual value is the expected value that is to be realised from the sale of the asset at the end of its expected useful life. It is also known as scrap value. Also see scrap value.
- **Restricted Funds:** Funds which can be utilized only for the specific purpose for which they are meant for are known as Restricted Funds. Restrictions are imposed on the use of these funds. It is also termed as Specific funds. See specific funds.
- **Revenue:** Revenue refers to the amount received from day to day activities of the business, like sale proceeds of goods and rendering services to the customers.
- **Revenue Expenditure:** Expenses related to the day to day activities and which are recurring in nature are termed as Revenue Expenditure.
- **Revenue Recognition or Realisation Concept:** According to this concept of revenue recognition, revenue is to be recognized only when rewards and benefits associated with the items sold and services provided are transferred, where the amount can be estimated reliably and when amount is recoverable.



- **Revenue Reserves:** These reserves are created out of the revenue profits i.e. those profits which are earned during the normal course of business.
  - **Retirement of Bill of Exchange:** When the holder receives the amount of a bill before the maturity date on the request of the acceptor, then it is called Retirement of the Bill of Exchange.
  - **Return Inwards:** Goods which are sold to the customers and are returned by them are known as Return Inwards. It is also known as Sales Return. Also see Sales Return.
  - **Return Outwards:** Goods which are purchased and are returned to the suppliers are known as Return Outward. It is also known as Purchases Return.
  - **Royalties:** It is an expense incurred for acquisition of patent rights.
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- **Salaries:** It is the amount paid to the employees for their services.
  - **Sales:** Sale of goods either in cash or credit is termed as Sales.
  - **Sales Book:** Sales Book is a subsidiary book which records the credit sales.
  - **Sales Return:** Goods which are sold to the customers and are returned by them are known as Sales Return. It is also known as Return Inwards.
  - **Sales Return Book:** Sales Return Book is a subsidiary book where returns of goods sold on credit are recorded.
  - **Sales Turnover:** Sales Turnover is the total revenue earned by a firm from the sale of goods and services during an accounting year.
  - **Savings Account:** Savings Account is a business account with bank from which frequent withdrawals cannot be made without paying extra charges.
  - **Scrap Value:** Scrap value is salvage value that is expected to be realised from the sale of the asset at the end of its expected useful life. It is also known as residual value. See residual value.
  - **Selling Expenses:** These are the expenses that are incurred in connection with promoting the sales and maintaining the existing customers.
  - **Secret Reserve:** Reserves that are created by overstating liabilities or understating assets are known as Secret Reserves.
  - **Securities Premium:** The amount received by a company over and above the face (nominal) value of the share is termed as Securities Premium. It forms part of non-distributable reserves and is classified under the head of Reserves and Surplus in the Balance Sheet.
  - **Shares:** The total capital of a company is divided into equal units of small denomination termed as Shares.
  - **Simple Journal Entry:** When only one account is debited and other account is credited with an equal amount it is termed as Simple Journal Entry.
  - **Simple Petty Cash Book:** In simple petty cash book, cash received is recorded on the Debit side and cash paid is recorded on the Credit side and it does not maintain a separate record for expenses.
  - **Single Column Cash Book:** A single column Cash Book contains one column of amount on both sides, and where only cash transactions are recorded. It is also known as simple cash book.

- **Single Entry System:** In the single entry system only single aspect of a transaction is recorded. Under this system only personal accounts and cash book are maintained, and relies on one sided accounting entry to maintain financial information. This system is also known as Accounts from Incomplete Records.
- **Software:** It refers to a set of programs that enables a computer to perform its tasks or commands given by the user.
- **Specific Donations:** Donations received with specific conditions attached to their use are termed as Specific Donations.
- **Specific Fund:** Funds which can be utilized only for the specific purpose for which they are meant for are known as specific funds. It is also termed as restricted funds. Also see restricted funds.
- **Specific Reserve:** When reserve is created for some specific purpose, the reserve is called Specific Reserve.
- **Stable Expenses:** Stable Expenses are those expenses which are incurred for the maintenance of stable, these are indirect expenses of the business.
- **Statement of Affairs:** Under the single entry system statement of financial records are prepared which is termed as Statement of Affairs.
- **Stock:** Goods which are held by the firm for the purpose of sale in the normal course of business is termed as stock.
- **Stock of Raw Material:** It means the stock of goods which is used for manufacturing of goods and converting it into finished goods.
- **Stock of Finished Goods:** It comprises those goods which are manufactured for the purpose of sale but remained unsold.
- **Store:** It can be termed as a shop or warehouse or a place where goods are kept for sale or for future use.
- **Straight Line Method:** In this method, depreciation is charged on the original cost of the asset every year, at a fixed rate of percentage. It is also known as Original Cost Method or Fixed Installment method. Also see Original Cost Method.
- **Solvent:** When a person is capable of paying debts then the person can be termed as solvent.
- **Source Documents:** Source Documents refers to the documents in writing, containing the details of events or transactions. It is also known as Source Voucher.
- **Subscription:** Subscription is the amount that is paid by the members of a NPO for continuing their membership with the organisation.
- **Subscription Outstanding:** Subscription which becomes due during an accounting period but not received in the same year is known as Subscription Outstanding.
- **Subscription Received in Advance:** Amount of Subscription which is related to the next year but received in this accounting year is termed as Subscription received in advance.
- **Subsidiary Books:** Journal is sub-divided into various books for quick, efficient and accurate recording of the business transactions which are large in number. These books are known as Subsidiary Books. These books are also known as Special purpose Books.
- **Sundry Expenses:** Sundry Expenses means those expenses which are miscellaneous and irregular to the business and are not classified under any particular head. It is also termed as Trade Expenses and Miscellaneous Expenses. Also see Trade expenses.
- **Surplus:** It is the excess of revenue income over revenue expenditure which is ascertained while preparing Income and Expenditure Account.

- **Suspense Account:** It is a temporary account where the difference of the Trial Balance is transferred in order to avoid delay in preparation of the Financial Statements.
- **Special Receipts:** Special receipts are very occasional in nature that are received on some certain occasions such as Annual Function, Fests etc.

- **Tailor-made Software:** It is the software that is developed as per the specifications and requirements of the users.
- **Tally:** Tally is readymade accounting software which is most widely used by the businesses.
- **Tangible Assets:** Assets that have physical existence, i.e., which can be seen and touched, are termed as Tangible assets.
- **Term of Bill:** Term of a bill refers to the time period in-between the date of drawing the bill and due date of the bill.
- **Total Balance Method:** Under this method, each ledger account total of debit side as well as credit side is entered in the Total of debit and Total of Credit Columns respectively.
- **Total-cum-Balances Method:** Under this method, both balances of the debit and credit column and total of debit and credit column are recorded in the same trial balance. It is a combination of total and balances method.
- **Trademarks:** It is a recognizable sign, design or an expression which helps differentiate a product or service of a particular company from others.
- **Trade Bill:** It refers to those bill of exchange and promissory note that are drawn for settling trade transactions.
- **Trade Discount:** It is the discount that is allowed at the time of sale or purchase of goods and which is recorded in the invoice but not in the books.
- **Trade Expenses:** Those expenses which are miscellaneous and irregular to the business and are not classified under any particular head are termed as trade expenses. It is also known as sundry expenses. Also see sundry expenses.
- **Trading Account:** It is a part of financial statements which is prepared to calculate the gross profit or loss and which records transactions which are directly related to the production of goods.
- **Trade Receivables:** It is the amount receivable for sale of goods or services rendered during the normal course of business. It includes both debtors as well as bills receivable.
- **Trade Payables:** It is the amount payable to the creditors for the purchase of goods and services. It includes both creditors and bills payable.
- **Transaction:** Transactions are all those instances, where there exists either outflow or inflow of cash. For example: purchase of furniture or goods, sales of goods, etc.
- **Transaction Processing System:** Transaction Processing System (TPS) refers to a computerised system that records, processes, validates and stores routine transactions that occur in various functional areas of a business on daily basis.
- **Transaction Voucher:** When accounting vouchers are prepared for the transaction of debit and credit are known as Transaction Voucher.
- **Transfer Entries:** These entries are passed in order to transfer an amount from one account to another.

- **Transfer Vouchers:** Transfer vouchers are prepared for non cash transaction like credit sales, credit purchases etc. It is also known as Non cash vouchers. Also see Non Cash Vouchers.
  - **Trial Balance:** Trial Balance is a statement showing summary of debit and credit balances of all Ledgers.
  - **Triple Column Cash Book:** In a triple column Cash Book, there are three columns of amount namely, Cash, Bank and Discount. Discount allowed and Discount received are recorded in the discount column. It is also known as Three Column Cash Book.
  - **Trustees:** Non Profit Organisations are managed and governed by the person/s who are known as *trustees*.
  - **Turnover:** Turnover is the total sales made during a particular period which may be monthly, half yearly or yearly etc.
  - **Two Sided Errors:** Errors that doesn't affect Trial Balance are known as two sided errors. These errors affect two or more accounts.
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- **Undercast:** It means when sum of the debit or credit side is totaled short.
  - **Unearned Income:** Income which is not related to the current year but received during the year is known as Unearned income. It is also known as Income Received in advance. See Income received in advance.
  - **Unfavourable Balance as per Cash Book:** It means when payment side exceeds the receipt side. It is also known as Credit Balance or overdraft balance of Cash Book. Also see credit or overdraft balance.
  - **Unfavourable Balance as per Pass Book:** It means when withdrawal side exceeds the deposit side and it is also known as overdraft or debit balance as per pass book. Also see overdraft or debit balance.
  - **Unrestricted Fund:** Those funds which are utilised to achieve the general set of objectives of NPO. It is also known as General Fund or Capital Fund. See capital fund.
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- **Value Added Tax:** Vat is an indirect tax levied on sale of goods. It is levied on sale price of goods and the rate of VAT differs from state to state.
  - **Verifiable and Objective Concept:** This concept states that the accounting should be free from personal bias and all the accounting transactions should be supported by written document like cash memo, invoices etc. so that it can be verified in future.
  - **Vertical Form of Financial Statements:** As per this format, the items of Trading Account, Profit and Loss Account and Balance Sheet are shown in one single column.
  - **Wages:** It is the amount paid to the workers engaged in the production or manufacturing units and are regarded as Direct Expenses.
  - **Wasting Assets:** Those assets whose value keeps on declining with their usage are termed as wasting assets.

- **Wear and Tear:** It is a cause which leads to decrease in the value of an asset which means the continuous use of asset in the business.
- **Window Dressing:** Window dressing means manipulation of books of accounts in order to conceal the actual position and showing the financial statements in a better position.
- **Working Capital:** Working Capital is that part of capital which is required for the day to day transaction of a business and it is the difference between the current assets and current liabilities.
- **Work-in-Progress:** Those goods which are in the process of becoming finished goods are termed as Work in progress.
- **Written Down Value Method:** It is a method where depreciation is not charged on the original cost of the asset but it is charged at a fixed rate on the diminished or reduced value of the asset. It is also known as Diminishing Balance or Reducing Installment Method.
- **Wrong Debit by Bank:** It implies a situation when bank wrongly debits a Pass Book. It means showing wrong withdrawals from a person's account.