

Patrician College of Arts and Science

Department of Commerce

Financial Accounting

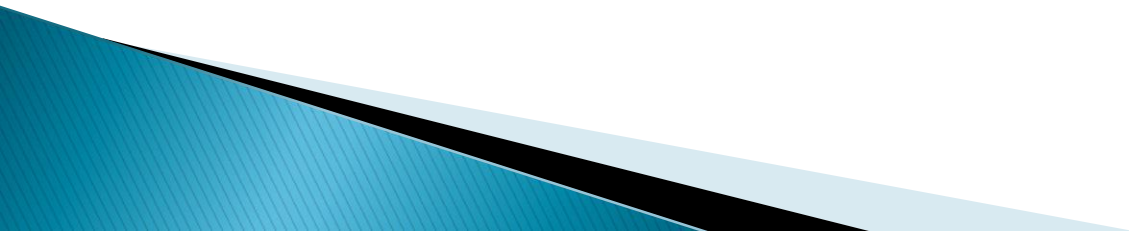
Subject Code: CPZ1A

Odd Semester


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Basic Accounting Terminology




Accounting Terminology

- **Business:** An organization created with the objective of making a profit from the sale of goods or services.
 - **Book keeping:** The act of systematically recording the financial transactions affecting a business.
 - **Book Value:** The net amount (original value plus or minus any adjustments such as depreciation) showed in the accounts for an asset, liability, or owners' equity item.
 - **Calendar Year:** An entity's reporting year, covering 12 months.
 - **Transactions:** Exchange of goods or services between businesses or individuals. Can also be other events having an economic impact on a business.
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Accounting Terminology


- **Journal:** A book or original entry in a double-entry bookkeeping system. The journal lists all transactions and indicates the accounts to which they are posted.
- **Journal Entry:** A recording of a transaction where debits equal credits.
- **Ledger:** A summary statement of all the transactions relating to a person, asset, expense or income which have taken place during a given period of time and show their net effect.
- **Trial Balance:** A listing of all account balances that provides a test of whether total debits equals total credits.
- **Revenues:** Increases in a company's resources from the sale of goods or services.

Accounting Terminology

- **Balance sheet:** A balance sheet is an itemized statement which lists the total assets and the total liabilities of a given business to show its net worth at a given moment in time (like a snapshot).
 - **Capital:** Property or money used and owned by a business and used to acquire future income or benefits.
 - **Debtor:** A debtor is a person who owes money. The amount due from him is called debt.
 - **Creditor:** A person to whom money is owing or payable is called a creditor.
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Accounting Terminology


- **Goods:** This includes all articles, commodities or merchandise in which the business deals. Thus, cloth would be goods for a dealer in cloth; furniture would be goods for a dealer in furniture and so on.
- **Assets:** Economic resources owned or controlled by a person or company.
- **Net Assets:** The difference between assets and liabilities.
- **Liquidity:** The availability of cash or ability to obtain it quickly. Also used to determine debt repayment ability.

- **Goodwill:** An intangible asset that exists when a business is valued at more than the fair market value of its net assets.
 - **Interest:** The cost of the use of money.
 - **Debit:** The benefit receiving aspect of a transaction.
 - **Credit :** The benefit giving aspect of a transaction.
 - **Purchases:** Buying of goods with the intention of resale.
 - **Liability:** Liabilities are debts; they are amounts owed to creditors.
 - **Fixed Assets:** Asset acquired for income generation but not for resale.
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Accounting Terminology

- **Current Assets:** Current assets are those assets of a company that are expected to be converted to cash, sold, or consumed during the normal operating cycle of the business (usually one year). Examples are cash, accounts receivable, short-term investments, US government bonds, inventories, and prepaid expenses.
- **Current Liabilities:** Liabilities to be paid within one year of the balance sheet date.
- **Drawings:** Any amount or goods withdrawn by the owner of a business for personal use is called drawings.
- **Bad Debt:** An uncollectible Account Receivable.
- **Loss:** A loss is expenditure without any benefit to the concern. On the other hand, expense is incurred to result in some benefit. Thus, amount spent on lighting is an expense but loss due to fire is loss.

Accounting Terminology

- **Income:** It is an inflow of assets which results in an increase in the owner's equity.
 - **Expenditure:** Expenditure takes place when an asset or service is acquired. Expenditure will include both payment of a sum immediately and a promise to pay it at a future date.
 - **Expense:** An expenditure whose benefit is finished or enjoyed immediately such as salaries, rent, etc.
 - **Turnover:** It means total trading income from cash sales and credit sales.
 - **Net worth:** It means assets minus outside liabilities. Profits of a business increase net worth whereas losses reduce the net worth of a business.
 - **GAAP** - Refer to Generally Accepted Accounting Principles.
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Accounting Terminology

- **Invoice:** Statement prepared by a seller of goods showing the details of quantity, price, value etc to be sent to the buyer.
- **Voucher:** The written record and evidence of a transaction.
- **Solvent:** A person who has assets with realizable values which exceed his liability.
- **Insolvent:** A person whose liabilities are more than the realizable values of his assets.

Accounting Terminology

- ▶ **Tangible Assets:** Assets which have physical existence i.e., They can be seen or felt or touched
 - ▶ **Intangible Assets:** Assets which have no physical existence i.e., They cannot be seen or felt or touched.
 - ▶ **Fictitious Assets:** Items shown on the asset side of balance sheet, but actually representing unadjusted losses.
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