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. **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.

2. **Event**: Happenings which occur due to transactions, causing a change in the financial position of the business.

3. **Entity:** An entity means a unit which has an independent or real existence.

4. **Proprietor:** Proprietor is a person who makes investment in the business.

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 **Drawings:** Goods or cash that is withdrawn by the proprietor from business for his/her personal use is termed as Drawings.

7. **Debtors:** Persons or organisations that are liable to pay money to a firm are called Debtors.

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

9. **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:

- **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.

- **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.

• **Liquid Assets**: Those assets which can be easily and quickly convertible into cash are termed as Quick Assets. These are also known as Liquid Assets.

10. **Liability:** Liability is an obligation of the business such as Creditors, Bills Payable etc. to whom the payment is to be made.

• **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.

• **External Liabilities:** External liabilities represent the amount of funds that a business owes to the outsiders. For example, creditors, suppliers, bank etc.

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

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

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

13. **Stock:** Goods which are held by the firm for the purpose of sale in the normal course of business is termed as stock.

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

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

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

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

18. **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.

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. **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.

21. **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.

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

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

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

25. **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.

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

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

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

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

31. **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.

32. **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.

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

34. **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.

35. **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. The expenses 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.**

36. **Receipts**: All inflows from various sources during an accouting 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.

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

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

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

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

Glossary of Accounting Terms

A

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.

B

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.

C

- **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.

D

- **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 send 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 obtain 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.

E

- **EBIT:** EBIT means profit earned though 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: W**hen 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.

F

- **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.

G

- **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.

H

- **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.

I

- **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.

J

- **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.

L

- **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.

M

- **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.

N

- **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 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.

O

- **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 though 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. <u>Also see credit or unfavourable balance.</u>

- **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. <u>Also see unfavourable or debit balance.</u>

P

- **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.

Q

- **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.

R

- **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.

S

- **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.

T

- **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.

U

- **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.

V

- **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.

W

- **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.