



**INDIAN SCHOOL MUSCAT**  
**DEPARTMENT OF COMMERCE & HUMANITIES**  
**CLASS :11**  
**ACCOUNTANCY**

Worksheet No: 1A

Chapter Name: Basic Accounting Terms (Notes)

Issued on : .....

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Name of the student: \_\_\_\_\_

Roll No: \_\_\_\_\_

Section: \_\_\_\_\_

1) **Business Transaction:**

- The term 'Business transaction' means a financial transaction or event entered into by two parties and is recorded in the books of accounts.
- Examples : Sales of goods, purchase of goods, Receipts from Debtors etc

2) **Capital:**

- It is the amount invested by the proprietor or partner in the business.
- It may be in the form of money or assets having monetary value.
- Capital is also known as Owner's equity or Net worth

3) **Drawings:**

- It is the amount withdrawn or goods taken by the proprietor or partner for personal use.
- Drawings reduce the investment of the owners.

4) **Liabilities:**

- Liabilities means amount owed or payable by the business.
- Liability towards the owners of the business is termed as internal liability. On the other hand liability towards outsiders (creditors, bank overdraft, long term borrowings etc) is termed as external liability.
- Liabilities are further classified into
  - a) **Non Current liabilities:** It is that liability which is payable after a period of more than one year from the end of the accounting year. Examples are long term loans, debentures etc.
  - b) **Current liabilities:** It is that liability which is payable within 12 months from the end of the accounting period. Examples are Creditors, Bills payable etc.

5) **Assets :**

- Assets are the properties (tangible and intangible assets) owned by a business.
- In other words, anything which will enable the firm to get cash or an economic benefit in the future is an asset.

- Assets are classified into:
  - a) **Non Current assets:** Non-current assets are those assets which are held by a business not with a purpose to resell but are held either as investment or to facilitate business operations. Non-current assets include:
 

**Fixed assets:** Fixed assets are those assets which are not meant for resale but for generating revenue in the business. They are further classified into

    - i) **Tangible fixed assets:** Tangible assets are those assets which have a physical existence i.e. they can be seen and touched. Examples are Land, Building, and Furniture etc.
    - ii) **Intangible fixed assets:** Intangible assets are those assets which do not have physical existence i.e. they cannot be seen and touched. Examples are Goodwill, Patents, and Copyright etc.
  - b) **Current assets:** Current assets are those which are held by the business with the purpose of converting them into cash with a period of one year. Examples are Debtors, bills receivable etc.
  - c) **Fictitious assets:** Fictitious assets are those assets which are neither tangible assets nor intangible assets. They are losses not written off in the year in which they are incurred but in more than one accounting year. Examples are Discount or Loss on issue of Debentures etc
- 6) **Expenditure:** It is the amount spent or liability incurred for acquiring assets, goods or services. They are categorized into
  - a) **Capital Expenditure:** It is an expenditure incurred to acquire assets or improving the existing assets which will increase the earning capacity of the business. Examples are Purchase of machinery, furniture etc. It is shown on the assets side of the Balance sheet.
  - b) **Revenue Expenditure:** It is the expenditure incurred, the benefit of which is consumed or exhausted within the accounting period. It has a direct relationship with revenue. Examples are Salaries, rent etc. It is shown on the debit side of Trading account or Profit and Loss account.
  - c) **Deferred Revenue Expenditure:** It is revenue expenditure in nature but is written off or charged in more than one accounting period. Examples are Advertising expenditure.
- 7) **Expense:** It is the cost incurred for generating revenue. Examples are salaries, wages, rent etc.
 

**Prepaid expense:** It is an expense that has been paid in advance and the benefit of which will be available in the following year or years.

**Outstanding expense:** It is an expense that has been incurred but has not been paid.
- 8) **Income:** It is the profit earned during a period. It is the difference between revenue

and expense.

- 9) **Profit:** It means income earned by the business from its operating activities. It is further divided into :
  - a) **Gross profit:** It is the difference between revenue from sales over its direct cost.
  - b) **Net Profit:** It is the profit earned after allowing for all expenses.
- 10) **Gain:** It is a profit irregular or non-current in nature. It is a profit that arises from transactions which are the operating activities of the business but are incidental to it such as gain on sale of fixed assets or investments.
- 11) **Loss:** It is the excess of expenses over its revenue. It decreases the owner's equity. For example goods lost by fire, theft etc.
- 12) **Purchase:** It is used for purchases of goods for resale or for producing the finished products which are also to be sold. It includes both cash purchases and credit purchases.
- 13) **Sales:** It is associated with or used for sale of goods that is dealt with by the firm. It includes both Cash sales and Credit sales.
- 14) **Goods:** goods are the physical items of trade. It applies to all the items making up the sales or purchases of business.
- 15) **Stock:** It is tangible asset held by an enterprise for the purpose of sale in the ordinary course of business or for the purpose of using it in the production of goods meant for sale. It may be Opening stock (stock in hand in the beginning of the year) and Closing stock (stock in hand at the end of the accounting year).
- 16) **Debtor:** He is a person who owes amount to the enterprise against credit sale of goods or services.
- 17) **Creditor:** He is a person to whom an enterprise owes amount against credit purchase of goods or services.
- 18) **Voucher:** It is an evidence of a business transaction. Examples are Cash memo, Invoice or Bill, Receipt, Debit note, Credit note etc.
- 19) **Discount:** When customers are allowed rebate in the prices of goods or from the amount paid by customers it is known as discount. It includes:
  - a) **Trade Discount:** It is a rebate allowed by the seller on the basis of sales, either quantity or value.
  - b) **Cash Discount:** It is a rebate allowed for timely payment of the due amount.