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Comm. Studies Tender Heart High School
Lokesh Arora

classmate Date 4/11/24 Page

Ch - 19 'Meaning, Objectives and Terminology of Accounting'

Good Morning Students
This lesson is of class 9th for the subject of Commercial Studies. Topic for today is 'Basic Accounting Terminology' which is covered in Ch - 19 'Meaning, objectives and Terminology of Accounting' of your Book titled 'Commercial Studies'

This lesson is being submitted to you on 4.11.2024 and the voice is of Mr. Lokesh Arora

Students today we will discuss various terms used in Accounting.

(1) Capital :- Capital means the money or anything (having money value) invested by the owner of the business in the firm. Capital is also known as owner's equity or net worth. From the firm's point of view, capital is a liability of the business towards the owner.

(2) Liability :- Liability means the amount which the firm has to pay to the outsiders. Liabilities represents the claims of those

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who are not the owners.
Liabilities are of following types:-

(i) Fixed Liabilities:-
Fixed liabilities are those liabilities which are repayable after a long period of time. These do not become due for payment in the normal operating cycle of business. Debentures, Bank loans, long term loans are examples of fixed liabilities

(ii) Current Liabilities:-
Current liabilities are those liabilities which are payable within a period of one year. These become payable in the normal operating cycle of the business. For example Trade creditors bank overdraft, bills payable, outstanding expenses etc.

(iii) Contingent Liabilities:-
Contingent liabilities are those liabilities which are not payable in present but which can become payable in future on the happening of an event which is uncertain. If the event does not happen it shall not be payable. For example, the firm has given a guarantee

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for a loan taken, by another firm. Our firm shall be liable to pay loan to the bank only when the other firm does not pay the loan.

3. **Asset :-** Assets means any ~~ta~~ tangible thing or right owned by the business which will enable the business to get cash or benefit in future. Assets are the present value of future benefits. Fallowing are the types of Assets

(1) **Fixed Assets :-**
Fixed Assets are those assets which are acquired for use in business over a long period of time and not for resale. Fixed assets are used for production and supply of goods or services. These assets help in earning revenue. Land and buildings, Plant and Machinery, Furniture and fixtures etc. are examples of Fixed Assets.

(2) **Current Assets :-** Current assets are those assets which are acquired for resale or which can be converted into cash within a

period of one year. Cash in hand, cash at bank, Stock in hand, debtors, Bills receivable, prepaid expenses etc. are examples of current assets.

(c) Liquid Assets :- Current asset which can be converted into cash at a very short notice and without risk of loss are called liquid or quick assets. Cash in hand, cash at bank, short term marketable securities are examples of liquid assets.

(d) Wasting Assets :- Fixed assets which have a limited useful life and depreciate rapidly are known as wasting assets. Mines, machines, forest etc. are examples of wasting assets.

(e) Tangible Assets :- Assets which have physical existence are known as tangible assets. These assets can be seen and touched. For example plant and Machinery, furniture, Stock in hand etc.

(f) Intangible Assets :- Assets which do not have any physical existence are known as Intangible assets. These cannot be seen or touched e.g. Goodwill, Patent etc.

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(3) Fictitious Assets :- Fictitious assets are those assets which neither have any market value nor having physical existence. But these are shown in balance sheet. These represent the unwritten off expenses or losses. For example preliminary expenses, discount on issue of shares and debentures etc.

(4) Revenue :- Revenue means the sum of money received or to be received from the customers as a result of sale of goods or services to them. Receipts from sale of goods, income from rent, dividends etc are the examples of revenue.

(5) Expenses :- Expense is the monetary value of inputs or resources consumed. It is sum total of money paid or to be paid as a result of purchase of goods or services. Purchase of goods, payment of salary, wages, advertisement, rent, etc., are examples of expense.

Students, before going further I will ask ~~with~~ you some question. You may pause the audio for few minutes and write the answers in your note-books.

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Qu1. What are Fixed Assets? Give example.
2. What is Capital?
3. What are Current Liabilities? Give examples.

(6) Purchases :- Purchases means the total amount of goods purchased by the firm on cash or credit. The term purchase does not include purchase of any asset such as machinery, stationery etc. Goods taken by the owner for his personal use are also not included in purchases.

(7) Sales :- Sales means the amount of goods sold to customer on cash or credit. Sales do not include the value of fixed assets sold by the firm.

(8) Stock :- Stock means the goods lying unsold ~~to~~ on a particular date on which the balance sheet is prepared. Stock is valued on the basis of 'cost price or market price whichever is less' principle. Stock may be opening stock or closing stock. Opening stock means goods lying unsold in the begining of the accounting year. Closing stock means good lying unsold at the end of the accounting year.

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(9) Debtors :- A person who owes (has to pay) money to the firm on account of goods sold to him on credit is a debtor. The term 'debtors' involves the total amount of money which all the customers owe to the firm. When we sell goods on credit, the money which the customer have not paid for receiving goods are debtors. But loans and advances granted by firm are not included in debtors.

(10) Creditors :- A person to whom the firm owe (has to pay) money on account of goods purchased from him on credit is a creditor. The term 'creditors' involves the total amount of money which to be paid by the firm. Loans and advances raised by the firm are excluded from trade creditors.

(11) Net Profit :- It means the excess of revenue (income) over expenses. It represents the result of business activities during a particular period of time. Net profit is the reward for the owner against his capital.

(12) Net loss :- Loss means some thing against which the firm receives no

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benefit. Net loss means the excess of expenses over income.

(13) Drawings!- Drawings means money or any thing having money value withdrawn by the owner for the business for his personal use or domestic use.

(14) Transaction!- Any exchange of goods or services on cash or credit is known as transaction.

(15) Entry!- Recording of transaction in the books of accounts is known as Entry.

(16) Voucher!- The document which serve as an evidence or proof of a transaction is known as voucher.

(17) Debit!- Debit represents the left side of an account.

(18) Credit!- Credit represents the right side of an account.

(19) Discount!- An allowance made by a seller to buyer for bulk purchase or for making prompt payment. There are two types of discount!-
(a) Trade Discount! Trade discount is allowed

to encourage the buyer to buy in large quantities. It is allowed on the printed price of the commodity at the time of sale

(b) Cash Discount :-
Cash discount is allowed to the customer to encourage him to make prompt payment for goods purchased. When the buyer makes payment within a specified period or on the spot, cash discount is given. Cash discount is allowed on the invoiced price.

With this, I am ending my topic here. I will give you some questions. All the students are required to answer the questions in their note-books.

Q1. Explain the terms Debtors and Creditors.
2. What are Drawings?
3. What is Discount? Explain its two types.

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