

## 1. Details of Module and its structure

Module Detail	
Subject Name	Accountancy
Course Name	Accountancy 01 (Class XI, Semester - 1)
Module Name/Title	Introduction to Accounting – Part 3
Module Id	keac_10103
Pre-requisites	Basic knowledge of process of accounting
Objectives	After going through this lesson, the learners will be able to understand the following: <ol style="list-style-type: none"><li>1. Transactions</li><li>2. Voucher</li><li>3. Goods</li><li>4. Entity</li><li>5. Capital</li><li>6. Assets</li><li>7. Liabilities</li><li>8. Stock</li><li>9. Sales</li><li>10. Income</li><li>11. Purchases</li><li>12. Revenue</li></ol>
Keywords	Assets, liabilities, capital, expense, income, expenditure, revenue

## 2. Development Team

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## **Basic Accounting Terms**

Accounting is the analysis and interpretation of book keeping records. It includes not only maintenance of accounting records but also the preparation of financial information which involves the measurement of transactions and other events pertaining to a business. Accounting as a language of business communicates the financial results of an enterprise to various users. For evaluating the financial results of the enterprise, it needs to compare the financial status of an entity either with its financial results within the industry or with its own past results. As we express ourselves through our language, similarly the results of the business activities are expressed through different kinds of accounting terms for its effective readability, understandability and comparability of the financial results of a business entity.

Let us now understand the meaning of basic terms used in accounting:

### **Transaction**

Transaction is an interaction between a business activity and its stakeholders who have varied interests in the business activities. Business transactions are recorded in the book of accounts and summarized in the financial statements of the business because they refer to the activities and events that affect the financial position of business. The specific characteristics of a business transaction are:

- i. It must contain a financial value, i.e., capable of expressed in monetary terms.
- ii. It must be supported by a source document i.e., a voucher.

- iii. It must have dual aspect i.e., for every value received there is an equal value given.

It can either be an exchange transaction which involves physical exchange of values such as sales, purchases, payments or non exchange transactions such as loss by flood, fire loss, depreciation etc.


Some examples of business transactions are:

- i. Investment of capital in business
- ii. Acquisition of Fixed assets
- iii. Payment of dividend
- iv. Payment of salaries

## Voucher

Each transaction is recorded in the book of accounts providing all required information of the transaction. Since each transaction has a effect on the financial position of the business, documentary evidence required to establishes its occurrence and proper authorization. Such documentary evidence in support of a transaction is known as **voucher**. Vouchers fall within the broad category of:

- (i) *Payment voucher*: A payment voucher, usually on a printed standard form, is a record of payment. When payment is made for an expense, generally a bill is prepared to record full particulars of the claim by the person or organization receiving payment. From the bill the accounting department prepares accounting voucher for each payment to be made, no matter whether the amount that is paid for the goods purchased or to pay employee's salaries or to pay for services or to pay for any other asset acquisition or payment of electricity charges. (refer figure 1 and figure 2).

Bill	
<b>Negi &amp; Associates</b> Tax Consultants	
XY-7, 1st Floor, Maharani Bagh, NEW DELHI-110024 Phone : 011-29742641 Fax : 49839331 Service Tax Registration No. : AASPN5992QST001 PAN No. : AASPN5992Q	
Name Unique Electronics	Date 20/04/2014
Address Shop No. 109, Nehru Place, New Delhi-110019	Bill No OTHERS/ 13-14/04/S
Particulars	
Our fee for consulting for VAT Matters	Amount 3150
Rupees : - Three Thousand One Hundred Fifty Only	
Total 3150 For Negi & Associates  AUTHORISED PERSON	

Tin No : 07821344551		RETAIL INVOICE/CASH MEMO		Book No 53	
<b>Unique Electronics</b> Deals in : Sony Play Station, Nintendo Game Bay S.P. U.S. Sony P.S.P., Game Cabs, X Box Game Spl. In All Kinds of Games CD's & Cartridges Shop No 109, Nehru Place, New Delhi-110019 Ph.: 011-2645554, 2930445				Invoice No 5223	
				Date 14/6/14	
M/s Optima Machineries				Purchaser Tin No	
Qty.	PARTICULARS	RATE	AMOUNT	P.	
			Rs.		
52	Sony MP-3	2917.615176			
Total Value Before Adding VAT			151716		
(+ ) VAT 19.5 @ %			18963		
Total Sale Price with VAT			170681		
<small>Goods once sold will not be taken back          All disputes Subject to Delhi Jurisdiction          Printed by : Met Designers &amp; Printers, 1810, Kirti Mubarakpur,          New Delhi-3 Tel : + 91-11-24441888/999          Invoice Printed : 4001 to 6000 – Book Printed 41 to 60</small>				For : Unique Electronics E. & O.E. Signature	

Figure 1 & 2: Specimen of Bill and accounting voucher of Unique Electronics

- (ii) Receipt voucher: A receipt voucher is a document which is issued against cash receipts. It may also be a printed standard form. This document shows that a certain sum of money was received from a person or organization and also contains information regarding purpose for which the money is received. It is signed by a responsible employee, authorized by the management to receive the money (refer figure 3 & 4).

Tin No : 07821344551		RETAIL INVOICE/CASH MEMO		Book No 53	
<b>Unique Electronics</b> Deals in : Sony Play Station, Nintendo Game Bay S.P. U.S. Sony P.S.P., Game Cabs, X Box Game Spl. In All Kinds of Games CD's & Cartridges Shop No 109, Nehru Place, New Delhi-110019 Ph.: 011-2645554, 2930445				Invoice No 5223	
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on A/c of \_\_\_\_\_ RECEIVED the sum of Rupees \_\_\_\_\_

Firm's Name: UNIQUE ELECTRONICS No. \_\_\_\_\_ Date 14/04/14

PARTICULARS		₹	P.
DEBIT	<u>Optima Machinery</u>	<u>1,70,681</u>	<u>-</u>
	TOTAL	<u>1,70,681</u>	<u>-</u>
CREDIT	<u>Sales</u>	<u>1,51,716</u>	<u>-</u>
	<u>VAT Output</u>	<u>18,965</u>	<u>-</u>
	<u>Being amount receivable against bill No. 5223</u>		
	TOTAL	<u>1,70,681</u>	<u>-</u>

Approved by \_\_\_\_\_  
Signature [Signature] Receiver's Signature \_\_\_\_\_

**Figure 3 & 4: Sale Voucher and accounting voucher.**

- (iii) Transfer voucher: A transfer voucher is used to record the residuary transactions. An internal transaction or a transaction not involving any cash payment or cash receipt is recorded in the transfer voucher. Examples are: goods purchased on credit, depreciation of assets, outstanding expenses, accrued income, etc. (refer 5 & 6)

**RETAIL INVOICE/BILL**  
**JAIN DISTRIBUTORS**  
 L-5 LAJPAT NAGAR NEW DELHI 110024  
 Phone : 29811963,66607421,46346679

**SOURCE VOUCHER**

PAN- AAKPT01A0B TIN : 67370272370

Inv. No. : **SB-622 (14-15)**  
 Date : **31/04/2014**  
 TIN NO :  
 CST/LST NO. :

NO	CHALLAN NO.	PRODUCT NAME	PACK	QTY.	RATE	VAT%	AMOUNT
1	5328	NATRAJ PENCIL	PCS	10	2.75	5.00	27.50
2	5328	FALCON 180 PAGE REGISTER	PCS	1	38.00	5.00	38.00
3	5328	BLUE STIC	PCS	1	23.00	5.00	23.00
4	5328	POST IT FRONT	PCS	2	25.00	5.00	50.00
5	5356	CELLO TAPE 1" MAYUR	PCS	2	13.00	5.00	26.00
6	5356	FALCON 240 PAGE REGISTER	PCS	1	48.00	5.00	48.00
7	5356	KANGAROO STAPLERHP45	PCS	1	135.00	12.50	135.00
8	5391	CELLO TAPE 1" MAYUR	PCS	2	13.00	5.00	26.00
9	5391	CELLO TAPE 2"	PCS	2	21.00	5.00	42.00
10	5391	HIGHLIGHTER	PCS	2	14.00	5.00	28.00
11	5391	REGISTER 40 FULL IND	PCS	1	95.00	5.00	95.00
12	5391	LOXUR PERMANENT INK	PCS	1	20.00	5.00	20.00
13	5395	CELLO TAPE 1" MAYUR	PCS	3	13.00	5.00	39.00
14	5418	CELLO TAPE 1" MAYUR	PCS	6	13.00	5.00	78.00
15	5510	CENTURY A4ST16LASER	PKT	1	210.00	5.00	210.00
16	5579	CENTURY A4ST16LASER	PKT	1	200.00	5.00	200.00
17	5579	CELLO TAPE 1" MAYUR	PCS	6	13.00	5.00	78.00
18	5579	PERMANENT MARKER	PCS	2	16.00	5.00	32.00
19	5579	J.K PAPER A-4	RM	10	155.00	5.00	1550.00
20	5663	CELLO TAPE 1" MAYUR	PCS	6	13.00	5.00	78.00
21	5663	PERMANENT MARKER INK	PCS	1	20.00	5.00	20.00
22	5724	WORLD MILKY FOLDER	PCS	10	8.00	12.50	80.00
23	5837	CELLO TAPE 1" MAYUR	PCS	6	13.00	5.00	78.00
24	5837	PERMANENT MARKER	PCS	1	16.00	5.00	16.00
25	6047	WORLD MILKY FOLDER	PCS	10	8.00	12.50	80.00
26	6047	SCALE SMALL	PCS	1	4.00	5.00	4.00
27	6047	ENVELOP 10x12 BROWN	PCS	100	1.75	5.00	175.00
28	6047	ENVELOP 10x14 BROWN	PCS	100	2.00	5.00	200.00
29	6047	REYNOLD TRIMAX PEN	PCS	1	36.00	5.00	36.00
30	6047	NATRAJ PENCIL	PCS	10	2.75	5.00	27.50

VAT 5% Amt. : 3245.00    VAT 5% Amt.: 162.26    Total : 3540.00  
 VAT 12.5% Amt. : 295.00    VAT 12.5%: 36.88  
 ADD: VAT/CST : 199.14  
**GRAND TOTAL : 3739.14**  
**TOTAL (R/O) = 3739.00**

RUPEES : Three Thousand Seven Hundred Thirty Nine Only    E.&O.T.  
 For JAIN DISTRIBUTORS

**Figure 5 & 6: Specimen voucher for credit payments**

### Goods

Goods include every type of property such as Land, Building, Machinery, Furniture, Cloth, vehicles, jewellery etc. However, in accounting its meaning is restricted to only those articles which are possessed by a business with a sole objective selling to consumers. For example, if a business purchased personal computers, it will be goods for the business if it deals in buying and selling of personal computers, but if the business deals with buying and selling of readymade garments then personal computer will be an asset to the business and will not be termed as 'goods'. Goods include purchases, sales, sales returns, purchases return. However, purchase account, sales account, sales return account and purchase return account are opened in the books of account.

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## **Entity**

Entity is defined as a person or an organization that has a legal and identifiable existence. In accounting a business as an entity is defined as an economic unit distinct from its personal identity and dealings, engaged in buying and selling of goods and rendering services by effectively utilizing the available economic resources for earning profits for its survival and betterment of the society within which it operates. Examples of entity are individuals, sole proprietorships, partnerships, companies, societies, not for profit organizations, voluntary associations, NGOs, Government Institutions etc.

## **Capital**

Amount invested by the owner in the firm is known as capital. It may be brought in the form of cash or assets by the owner. Capital is an obligation a claim on the assets of business. Capital is therefore shown on the liabilities side of the balance sheet. Capital is broadly classified as debt and owner's equity. While both types of financing have their benefits, each one of it carries a cost. Debt capital refers to the borrowed funds that must be repaid at a later date, usually with interest. It refers to the long-term capital, specifically bonds, rather than short-term loans to be paid off within one year. Other examples of debt are trade credit, bank and credit union loans, overdraft agreements, factoring etc. Owner's equity is the amount of capital invested in the business. It refers to that portion of the organization's capital, which is raised in exchange for the share of ownership in business organization.

## **Assets:**

Assets are economic resources of an enterprise that can be usefully expressed in monetary terms and is often referred to as 'sources of funds'. These assets having a monetary/economic value possessed by an individual or entity are capable of producing some future economic benefit. These assets are generally brought in business to benefit from them and to increase the value of a business. Assets are items of value used by the business in its operations.

## **Classification of Assets:**

Assets are classified into different types based on their (i) convertibility to cash (ii) use in business (iii) On the basis of their physical existence.

**1. Convertibility:** On the basis of the convertibility of Assets into cash, Assets can be classified either into Current Assets or Fixed Assets.

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- **Current Assets:** *Current Assets* are assets held on a short-term basis. These are easily convertible into cash. Current assets are generally of a shorter life span generally for less than a year as compared to fixed assets which last for a longer period. Trade receivables which include Debtors (accounts receivable) and bills receivable (notes receivable), stock (inventory), temporary marketable securities, cash and bank balances, short-term investments, fixed deposits (for less than a year), accrued incomes, prepaid expenses etc. are classified as current assets.

- **Fixed Assets:** Fixed assets are not readily convertible into cash. They are also referred to as 'non-current assets'/'long-term assets'/'hard assets'. *Fixed Assets* are assets held on a long-term basis, such as land, buildings, machinery, plant, equipment, furniture and fixtures. These assets are used for the normal operations of the business for the generation of revenue.

**2. Physical Existence:** The assets can be classified on the bases of their physical existence. according to this, an asset may be tangible asset or intangible asset.

- **Tangible Assets:** The assets which we can touch, see and feel are called Tangible Assets. All fixed assets are tangible. E.g. Plant, Machinery, Building, furniture, fixtures etc. Some current assets like inventory and cash are also tangible assets.

- **Intangible Assets:** The assets which cannot be seen, felt or touched physically by us are called intangible assets. Goodwill, Franchise Agreements, Patents, Copyrights, Brands, Trademarks etc. are some of the examples. These intangible assets are also classified under assets because the business owners reap monetary benefits through these assets.

**3. Usage:** According to this classification, assets are either classified as operating assets or non-operating assets. This classification is based on usage of the asset for the business concern. Assets which are normally used for day-to-day business operations are classified as operating assets and other assets which are not used in day to day operations are classified as non-operating assets. In simple words, operating assets are the assets that a company uses for producing a product or service. These include cash, bank balance, inventory, loose tools, plant, equipment etc., whereas on the other hand these assets which are essential for the establishment of business and for its future needs are termed as non-operating assets. This includes some real estate purchased as an investment to earn from its appreciation i.e. increase in its price in future.

### **Liabilities:**

Both small and big business find it necessary to borrow money at one point of time or another. For the business, it forms a liability. Liabilities are obligations or debts that an enterprise has to



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payback at a future date with interest. The settlement of liabilities results in an outflow of cash resources. It represents creditors claim on the firm's assets. Liabilities are classified as long term liability and short term liability. Long term liabilities, also called non-current liabilities, are those which are payable after a period of one year from the reporting date. Loans from financial institutions and raising funds by issuing debentures are few examples of long term liability. Short term liability, also known as current liability, are obligations that are payable within a period of one year from the reporting date. Examples are bank loan (< 1 yr), creditors, accounts payable, bank overdraft.

### **Stock**

Stock (inventory) is a measure of something on hand like goods, spares and other items in a business. It is called *Stock in hand*. In a trading concern, the stock in hand, which is the amount of goods are lying unsold as at the end of an accounting period is called *closing stock* (ending inventory). In a manufacturing company, closing stock comprises raw materials, semi-finished goods and finished goods in hand on the closing date. Similarly, *opening stock* (beginning inventory) is the amount of stock at the beginning of the accounting period.

Stock may be supply of goods kept in hand for sale to customers by a merchant, distributor, manufacturer, etc. This may also be known as inventory. Stock may also be referred to as a quantity of something accumulated, as for future use, i.e. a stock of provisions

### **Sales**

In accounting, sales refer to the operating revenues earned by a company by selling goods or rendering services. It also refers to an agreement between a buyer and seller and it functions as a contract between them for the selected goods or services. Sale is a transaction between two parties where the buyer receives goods either tangible or intangible or consumes the services rendered by the business firm. For a valid sale, the following characteristics should exist:

1. The competence of both the seller and the buyer to enter into a contract
2. Mutual agreement on the terms of exchange
3. Something that is capable of being transferred (a good, an ownership title, entitlement to a certain service, etc)
4. A consideration in money (or its equivalent in value) paid or promised

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## **Income**

Money earned as a result of business activity is called income. Revenue of any business organization after deducting all its costs and taxes is known as income or business income. Business income can either be positive or negative in a given year.

## **Revenue**

The income generated from the sale of goods and services or from other use of capital or assets associated with the main operations of an organization before any costs incurred to earn such amount is called revenue. Revenue is however different from profit. The total amount earned by a business firm during its accounting period by selling its goods and/or services is revenue and is also termed as 'gross income'. It is important to pin point here the costs incurred to earn this income is required to be subtracted in order to present the true and correct position of a business firm. Here, we arrive at a income called 'Net income' in which the present and potential investors and other users of accounting information are interested to draw decision worthy conclusions. Net income acts as a barometer for the financial health of a business.

Revenues are of two types (i) operating revenue also called sales and (ii) non operating revenue referred to as one-time event or gain. Examples of non operating revenues are sale of an asset, windfall from investment etc.

## **Purchases**

Purchases involve the activity of acquiring goods or services to fulfill the goals of an organization. The total amount of goods procured by a business either on credit or on cash is called purchases. Purchases are made either for use in business operations or for reselling purposes with or without further processing. The major objectives of purchasing are:

- i. Maintain the quality and value of a company's products
- ii. Maintain the flow of inputs to match the flow of outputs
- iii. Strengthen the organization's competitive position.