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 4
Module Id	keac_10104
Pre-requisites	Basic knowledge of process of accounting
Objectives	After going through this lesson, the learners will be able to understand the following: • Debtors • Creditors • Cost • Gain • Loss • Profit • Discount • Drawings
Keywords	Debtors, Creditors, Goods, Cost, Gain, Stock, Purchase, Sales, Loss, Profit, Voucher, discount, Transaction, Drawings

2. Development Team

Role	Name	Affiliation
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1. Debtors

Debtors are persons and/or other entities who owe to a business for buying goods and/or consuming services on credit. Debtors are also the persons or organizations who have borrowed a certain sum of amount from any business firm. In other words, the debtors have a debt or legal obligation to pay a sum of money due for payment.

The total amount standing against such persons and/or entities on the closing date is shown in the balance sheet as *sundry debtors* on the asset side.

2. Creditors

Creditors are persons/entities to whom the business firm owns a specific sum of amount for buying goods and/or services on credit. In other words, a creditor has a right to receive a sum of money in return of fulfillment of an obligation on contract, from a person or an entity.

The term ‘creditor’ is used in reference to both short and long term loans/borrowings, bonds, mortgages etc.

The total amount standing in favor of creditors on the closing date is shown on the liabilities side of the balance sheet.

3. Cost

The monetary valuation of i) effort ii) material iii) resources iv) time and utilities consumed v) risks incurred and vi) opportunity forgone in production and delivery of a good or service can be termed as cost.

All expenses are costs for any business, but not all costs (such as those incurred in acquisition of an income-generating asset) are expenses. In other words, Cost is:

1. The amount of money that is needed to pay for or buy something i.e. the price of something.

2. An amount of money that must be spent regularly to pay for something (such as running a business or raising a family)
3. The amount of money which is given in order to achieve or get something or something that is lost or damaged in achieving something.

4. Gain

An income that arises from events or transactions incidental to business operations is called gain. Examples are sale of fixed assets, winning of court case, appreciation in value of assets etc. A gain is said to be occurred when an asset is either sold at a positive difference between the acquisition cost and the selling price or exists unrealized in the book of accounts at its original cost, for example, increase in the value of shares/investments.

5. Loss

The excess of expenses during a period over its related revenues its termed as loss. It decreases the owner's equity. It also refers to money or money's worth lost (or cost incurred) without receiving any benefit in return, e.g., cash or goods lost by theft or by fire accident, etc. It also includes loss on sale of fixed assets. To be specific, loss is defined as:

i) a cost that results in no benefit,

ii) decrease in value of product or Asset,

iii) excess of expenditure over income of any business,

iv) excess of cost over the net proceeds from a transaction of a business.

6. Profit

The excess of revenues during a period over its related expenses in an accounting year is called profit. Profit increases the investment of the owners.

Profit is a financial gain, which is the difference between the amount earned and the amount spent in buying, operating, producing and selling goods and services.

Profit = Total Revenue – Total Expenses

There are three major types of profits:

i) *Gross profit*: Gross profit is sales *minus* the cost of goods sold. For example, if company X has sales of Rs.100, 000 and a cost of goods sold is of Rs.60, 000, then gross profit will be computed as:

Gross profit = Rs.100, 000 - Rs.60, 000

= Rs.40, 000.

ii) *Operating profit*: Operating profit is calculated by deducting operating expenses from gross profit. Gross profit shows profitability after considering only direct expenses, and operating profit shows profitability of the business after considering operating expenses. Examples of operating expenses are salaries, general and administrative costs etc. If company A's operating expenses in the form of salaries etc. are Rs.20, 000, then the

Operating profit = Gross Profit – Operating expenses

= Rs.40, 000 minus Rs.20, 000

= Rs.20, 000.

iii) *Net profit:* Net profit is the income left over with the company after all non-operating expenses, which includes taxes and interest, have been paid. If interest is Rs.6, 000 and taxes are Rs.4000, then Net Profit is calculated as follows :

Net Profit = Operating Profit – Non Operating Expenses

= Rs. 20,000 – Rs. 6,000 – Rs. 4,000 = 10,000

7. Discount

Discount is the deduction in the price of the goods sold. It is offered in two ways. First Offering deduction of agreed percentage of list price at the time of selling goods called 'trade discount'. It is generally offered by manufactures to wholesalers and by wholesalers to retailers. Second, after selling the goods on credit basis the debtors may be given certain deduction in amount due to them encouraging them to pay the amount by stipulated period of time. This deduction is given at the time of payment on the amount payable and is called 'cash discount'.

8. Drawings

Withdrawal of money or goods by the owner of a business for personal use is called drawings. Drawing by the owner is recorded in the balance sheet as reduction in assets and reduction in owner's equity. Drawing account is a capital account. Since owner withdrawal reduces the capital value, a debit balance is shown as drawings.