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Accountancy Class XI

Chapter 2 Basic Accounting Terms | With Sarita Ma'am



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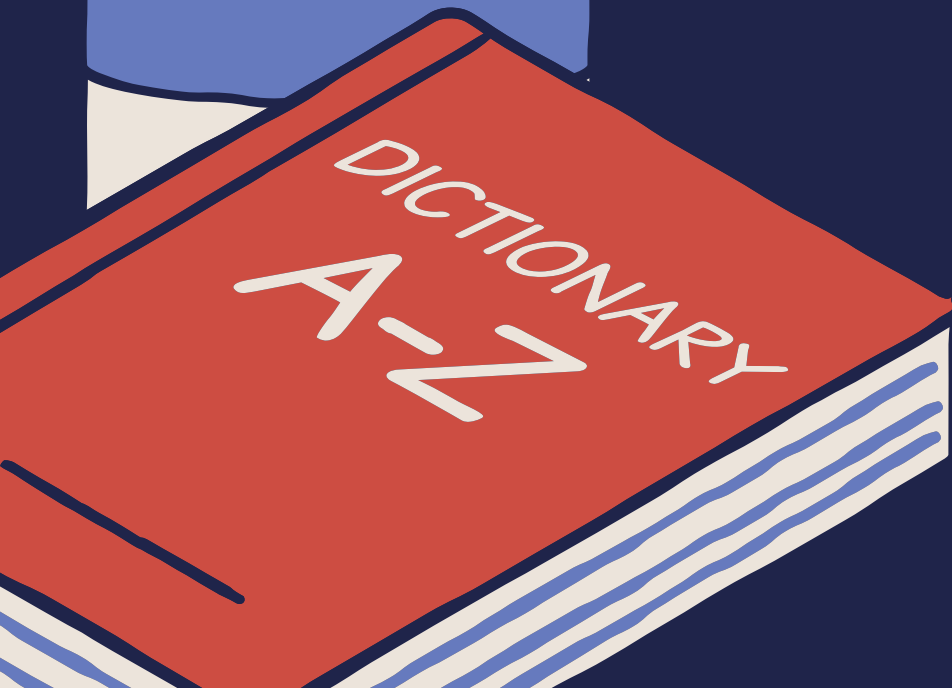


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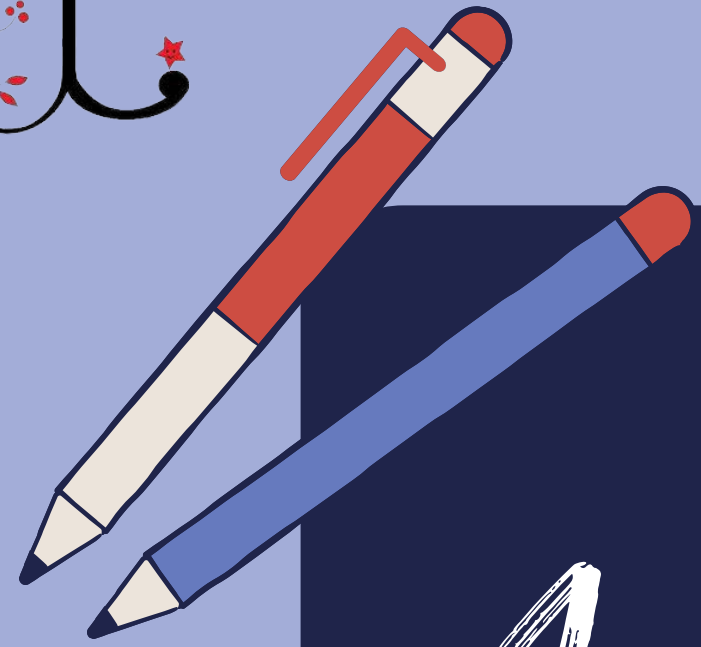


Welcome

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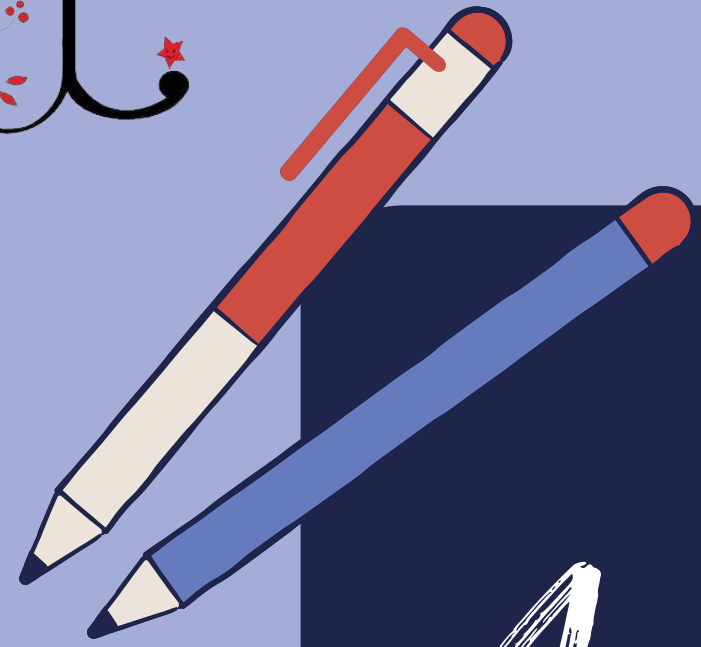
Accountancy Class XI

Chapter 2 Basic Accounting Terms

Entity,
Business Transaction,
Capital, Drawings.
Liabilities (Non Current and Current).
Assets (Non Current, Current);
Expenditure (Capital and Revenue),
Expense, Revenue, Income,
Profit, Gain, Loss, Purchase, Sales, Goods,
Stock, Debtor, Creditor, Voucher,
Discount (Trade discount and Cash Discount)



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Accountancy Class XI

Chapter 2 Basic Accounting Terms

PART 1

Entity,
Business Transaction,
Capital,
Drawings.
Liabilities (Non Current and Current).
Assets (Non Current, Current)



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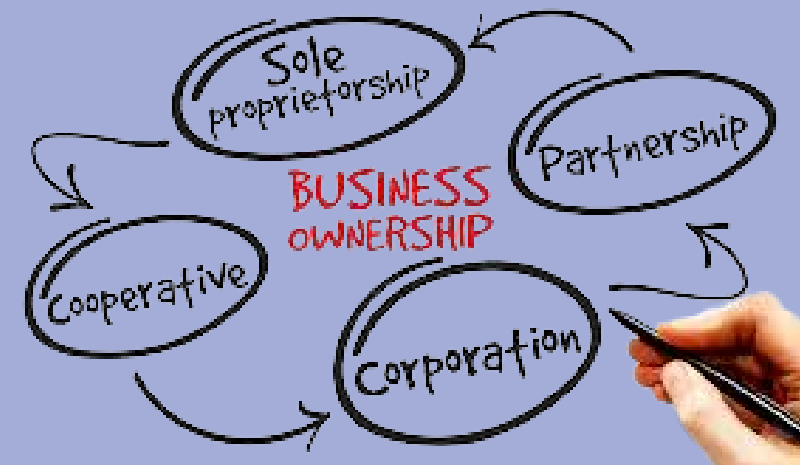
1. ENTITY



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1 Entity



An **entity** in accounting language refers to an **economic unit** engaged performing **economic activities** like Nikunj Enterprises, Maruti Suzuki, Dabur India, DLF, Bajaj Auto etc





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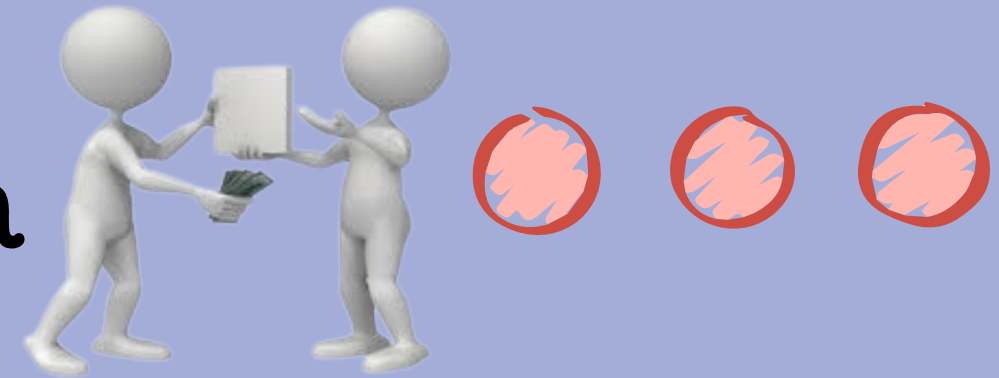


2. Business Transaction



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U 2 Business Transaction



The term **business transaction** refers to a **financial transaction** entered into between **two parties**. It involves exchange of **goods or services** for a **monetary consideration**. For example, purchase of goods, sale of goods, receipt from debtors, payment to creditors, purchase or sale of fixed asset, payment of expenses like salary, rent, wages, postage, etc; receipt of income like interest, commission, dividend, etc.





Characteristics/Features of a Business Transaction

1. It involves economic activity so it is expressed in terms of money.
2. It is entered into between two parties.
3. It involves exchange of goods or services for money consideration.
4. It affects the accounting equation of any business enterprise. Thus, it brings about changes in the position of assets and liabilities of the business entity.
5. It has dual aspects or two sides
6. The nature of each transaction is carefully analysed since it affect the financial position of a business unit.



Characteristics/Features of a Business Transaction

MODE OF SETTLEMENT OF VALUE

- (i) **Cash Transaction** – When the amount of the transaction is paid or received **at the time of transaction** itself, it is a cash transaction.
- (ii) **Credit Transaction** – When the amount of transaction is **promised to pay later**, it is called a credit transaction

CASH
CREDIT





Characteristics/Features of a Business Transaction



RELATIONSHIP WITH THE ACCOUNTING UNIT

- (i) **External Transaction** - Transactions between **firm and other party** are called external transaction e.g. goods sold to Ram, goods bought from Mohan. etc.
- (ii) **Internal Transaction** - Transactions which **does not involve second party** are called internal transactions e.g. charging depreciation on plant and machinery, creating provision for doubtful debt on debtors, etc.

TYPES OF TRANSACTIONS

INTERNAL
TRANSACTIONS

EXTERNAL
TRANSACTIONS





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3. Capital



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3 Capital



Capital refers to amount **invested** by the proprietor in the business. It may be in the form of **cash or assets** in money form. It is a **liability of the business entity** to its owner. It is also termed as **internal liability**, owner's equity, proprietor's fund or net worth. Owner's equity refers to owner's claim in the assets of the business. It is the excess assets over outside liabilities.

Capital – (Assets – Outside liabilities)



Example of Capital

Example

Find the Capital of Nikunj from the following information :

Cash ₹ 20,000; Land & Building ₹1,00,000;
Plant ₹ 60,000, Stock ₹50,000;
Debtors ₹20,000;
Bank Loan ₹ 75,000 and Creditors ₹25,000

Solution

$$\begin{aligned}\text{Assets} &= \text{Cash} + \text{Land \& Building} + \text{Plant} + \\ &\quad \text{Stock} + \text{Debtors} \\ &= 20,000 + 1,00,000 + 60,000 + 50,000 + \\ &\quad 20,000 = ₹2,50,000\end{aligned}$$

$$\begin{aligned}\text{Outside Liabilities} &= \text{Bank loan} + \text{Creditors} \\ &= 75,000 + 25,000 = 1,00,000\end{aligned}$$

$$\begin{aligned}\text{Thus, Capital} &= \text{Assets} - \text{Outside Liabilities} \\ &= 2,50,000 - 1,00,000 = 1,50,000\end{aligned}$$



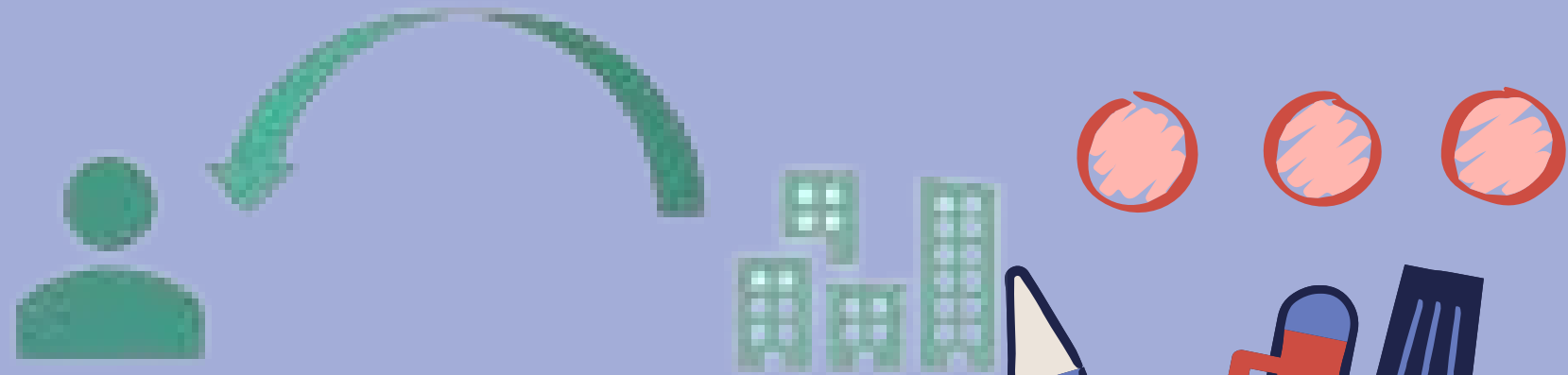
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4. Drawings

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U 4 Drawings



Any **cash or value of goods** withdrawn by the owner for **personal use or any private payments** made out of business funds are called **drawings**.





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5. Liabilities



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5 Liabilities

LIABILITIES



Liabilities mean the amount which the **business owed (payable)**. Liability towards the **owner /owners** (proprietor or partners) of the business and **outsiders(i.e. creditors, bills payable, bank overdraft, bank loan, salary outstanding, etc.)**. In other words, amount of all claims are called liabilities.

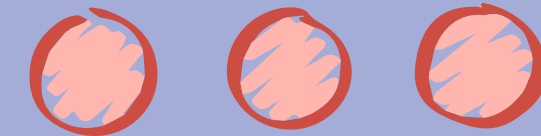
We may express it as

$$\text{Liabilities} = (\text{Assets} - \text{Capital})$$





Liabilities may be classified into two parts



01

The amount **due by business entity to proprietor** or owners is called internal liability. It is represented by owners' capital and free reserves. As per business entity concept, business firm is a separate entity and it is 'distinct from its owners so amount due to them is called internal liability

02

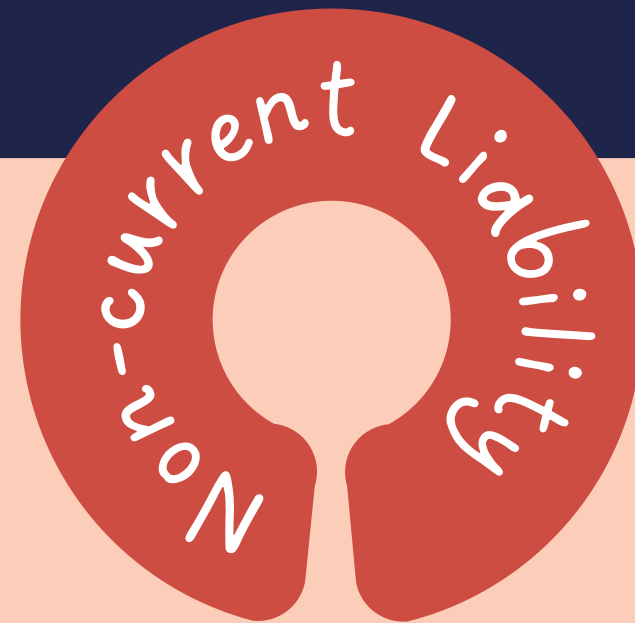
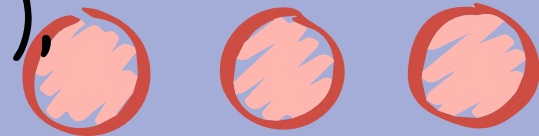


The amount **due to outsiders** (except proprietor or owners) by the firm is called external liability. It includes creditors, bills payable, bank loan, expenses outstanding, etc.





On the basis of tenure (period of repayment), liabilities may be classified into two parts



01

Non-current liabilities are those liabilities which are **payable after a long period of time** (normally more than a year from the end of the accounting period). It includes Debentures, Mortgage Loan, Long term Loan etc

02



Current liabilities are those liabilities which are **payable with in a year from the end of the accounting period**. It includes creditors, bills payable, bank overdraft, short term loan, outstanding expenses, etc.





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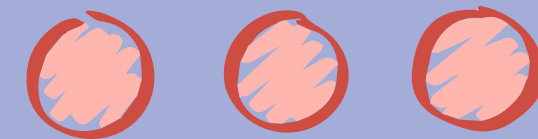
6. Assets



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6 Assets



Assets are the **properties** (tangible assets and intangible assets) owned by an entity or enterprise. They are the **economic resources** of the business. In other words, anything which will enable the firm to get **economic benefit** in the future, is an asset.

Examples of assets are land, building, machinery, furniture, stock, debtors, cash and bank balances, trademarks, copyrights, goodwill, etc.

ASSETS





Definitions of Assets



"Assets are future economic benefits, the rights, which are owned or controlled by an organisation or individual."
—Finney and Miller

"Assets are valuable resources owned by a business which are acquired at a measurable money cost."
—Prof. R.N. Anthony

ASSETS



Characteristics of Assets

Point 01

It should be owned (i.e., property) by the business

Point 02

It may be in tangible (physical) form or intangible form

Point 03

It should have some value attached to it

Point 04

It should be capable of being measured in money terms

U Classification of Assets

(i)

Non-current Assets

(ii)

Current Assets

(iii)

Fictitious Assets

ASSETS



(i) Non-current Assets



Non-current Assets are those assets which are held by an entity or enterprise **not with the purpose to resell** but are held either as investments or to facilitate business operations. In other words, those assets are held by the business from a long-term point of view.

Examples of Non-current assets are **Fixed assets** (machinery, building, furniture, patent etc.), Non-current Investments, Long-term Loans and Advances and Other Non-current Assets



ASSETS



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Non-current Assets



Fixed Assets

Fixed assets are those non-current assets of an enterprise which are held **not to resell** but with the purpose to increase its earning capacity.

Fixed assets are further classified into:

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1. Tangible Assets:

Tangible Assets are those assets which have **physical existence**, i.e., they can be seen and touched.

Examples
Machinery,
Computer, etc



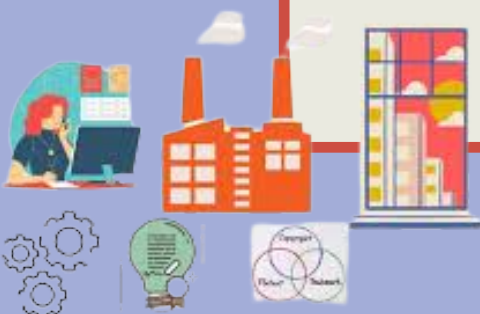
2. Intangible Assets

Intangible Assets are those assets which **do not have physical** existence, i.e., they cannot be seen and touched.

example
Computer software
logo, etc



ASSETS





(ii) Current Assets



Current Assets are those assets which are held by an entity

- (i) in the form of cash/
- (ii) for the conversion into cash within a short period, i.e., one year/
- (iii) For their consumption in the production of goods or rendering of services in the normal course of business.



ASSETS



(ii) Current Assets



For example,
cash and cash equivalents,
goods are purchased with the purpose to resell and earn profits,
debtors exist to convert them into cash, i.e., receive the amount from them,
bills receivable exist again for receiving cash against it,
short-term loans and advances, etc
Pre-paid expenses

Current Assets	
Cash in Hand	AccountingCapital.com
Cash in Bank	
Debtors	
Stock	
Bills Receivable	
Short-Term Investments	
Short-Term Loans & Advances	
Prepaid Expenses	
Income Earned but not Recvd.	

ASSETS



(ii) Current Assets



NOTE: Prepaid expenses are also classified as Current Assets although they cannot be converted into cash. They are so classified because a part of the benefit from such expenses is available in the next accounting year.



ASSETS



(iii) 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 period.





(iii) Fictitious Assets



EXAMPLES

In the case of firms, an example of fictitious asset is Deferred Revenue Expenditure such as Advertisement Expenditure.

Discount or Loss on Issue of Debentures is an example of fictitious assets in the case of companies.





Exercise

Question 1: The amount invested by the owner of the business is called.....

Answer 1:

Question 2: The amount withdrawn by the owner of the business for personal use is called.....

Answer 2:

Question 3: Goods withdrawn by the proprietor of the business for personal use is called.....

Answer 3:



Exercise

Question 4: Liabilities payable within a period of one year are liabilities

Answer 4:

Question 5: Assets which are converted into cash within a period of 1 year are called..... assets

Answer 5:

Question 6: Assets which have no physical appearance are known as..... assets.

Answer 6:



Exercise



Question 7: Assets which have physical appearance are known as assets

Answer 7:

Question 8: Stock is a part of current/fixed asset

Answer 8:

Question 9: Goodwill is a tangible/intangible asset.

Answer 9:



Exercise

Question 10: Bank overdraft is a liability.

Answer 10:

Question 11: Capital invested in the business by the proprietor is an internal/external liability

Answer 11:

Question 12: Assets held for continued use in the business and not meant for resale are termed as

Answer 12:



Additional Resources



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Homework



Learn these Basic
Accounting
Terms

**Coming Soon:
Part 2 of this Video**



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Thank You

See You Next Time

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