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Accountancy Class XI

Chapter 2 Basic Accounting Terms | With Sarita Ma'am



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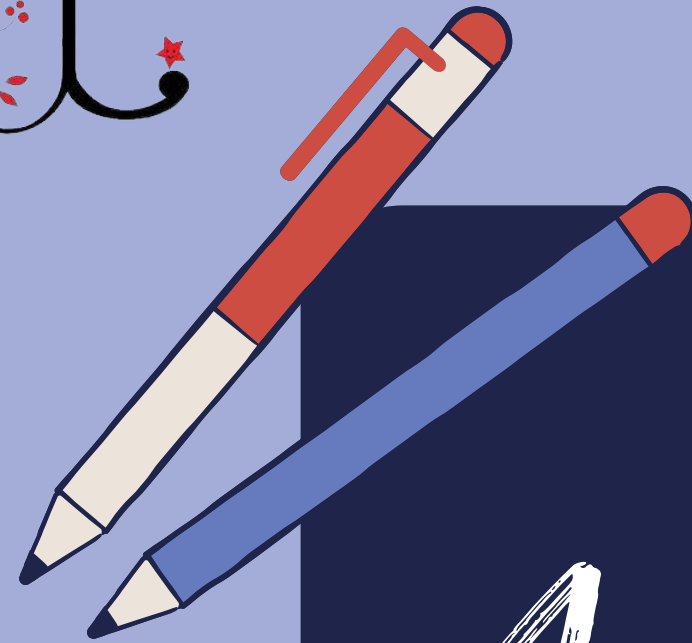


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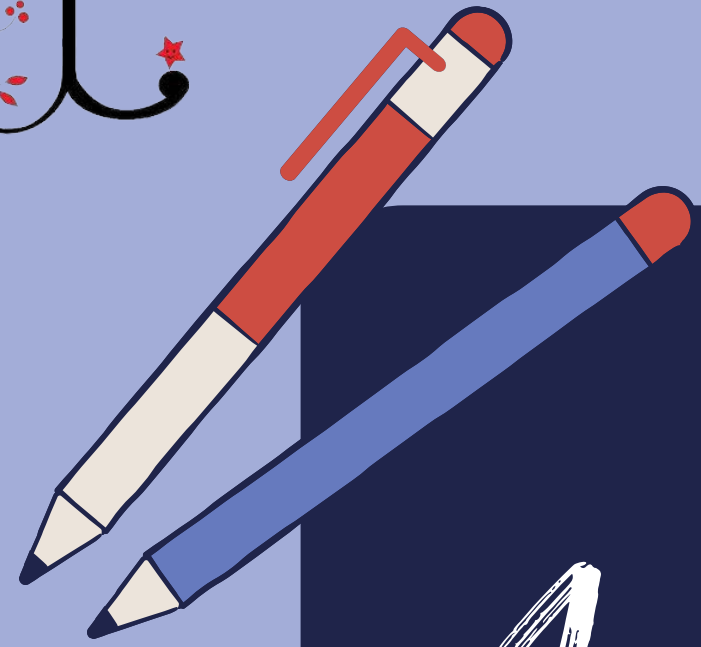
Accountancy Class XI

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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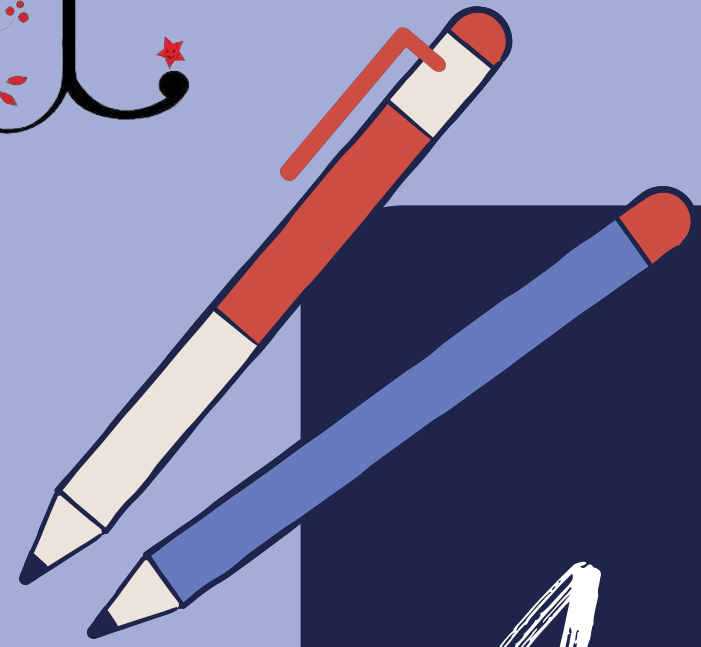
Chapter 2 Basic Accounting Terms

PART 3

Expense, Revenue, Income,
Profit, Gain, Loss



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Accountancy Class XI

Chapter 2 Basic Accounting Terms

Revenue vs Income vs Profit vs Gain



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8. Expense



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8. Expense



Expense is the cost incurred for generating revenue (producing goods and services for sell purpose)

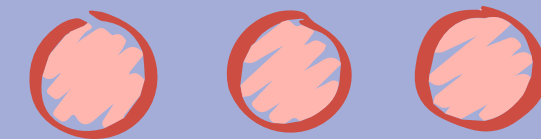
According to R.N. Anthony, "**Expense** is a monetary measure of inputs or resources consumed."

It is a value which has **expired during the accounting period.**





8. Expense



Accounting Treatment

debited to expense account

An expense is **charged (debited)** to Trading Account or Profit and Loss Account





Examples



Example 01

Depreciation i.e. decrease in the value of fixed assets used for the purpose of business is also an expense.

Example 02

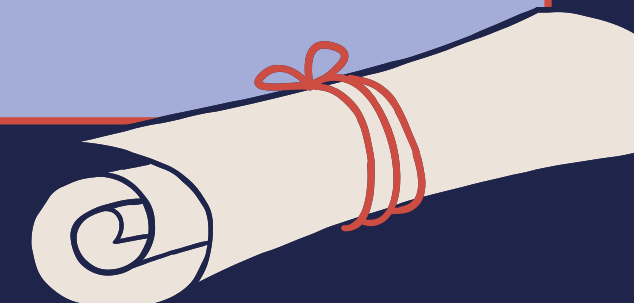
Amount paid for **general business expenses** such as salary, rent, wages advertisement, stationery, etc.

Example 03

An amount written off out of Debtors towards **bad debt or provision for doubtful debt** for the current year is also an expense

Example 04

Cost of Goods Sold





Exercise

Question 1 a:

Mr. Nikunj Mani dealing in electronic goods sold 20 TV sets costing ₹30,000 each at ₹40,000 each. Out of this ₹ 5,00,000 were received in cash and the balance is not yet received. He paid ₹ 10,000 as salary to his employee. and also received ₹ 5,000 as rent.

State the amount of expenses.

Answer 1 a:

Expenses will be
Cost of goods sold ₹6,00,000 (i.e. 20 sets x ₹ 30,000).

+

salary ₹ 10,000

expense ₹ 6,10,000



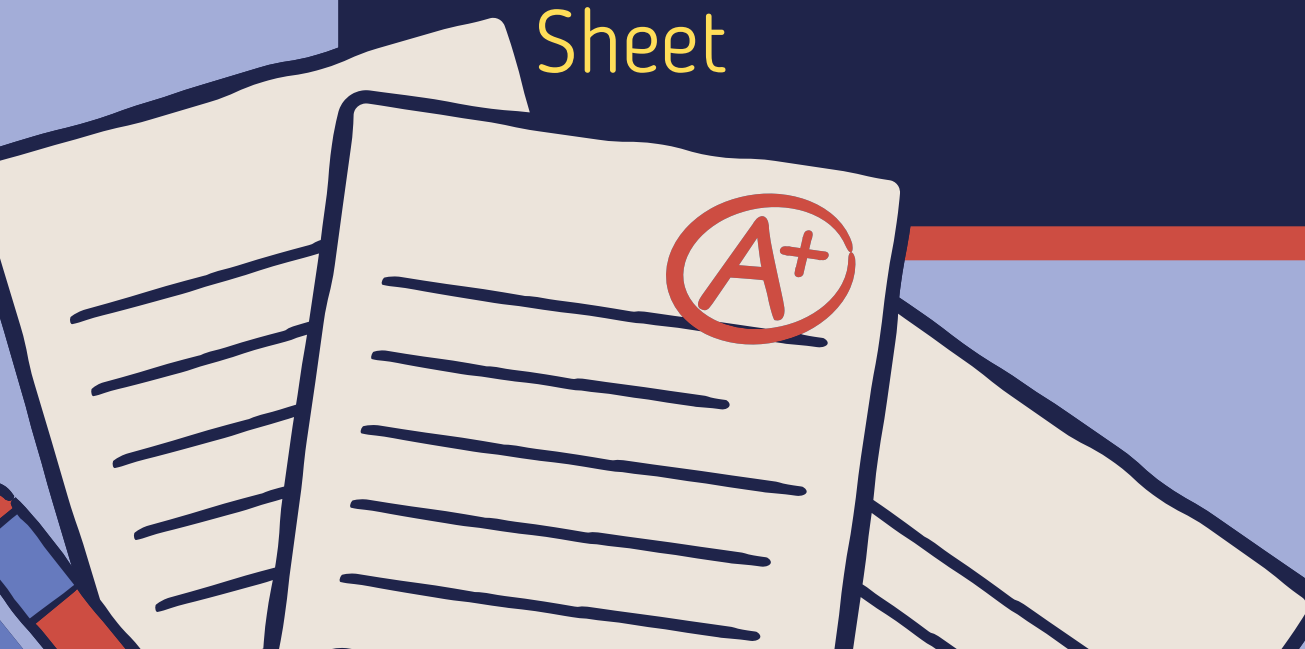
Prepaid Expense



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

Accounting Treatment

It will be shown as a Current Asset in the Balance Sheet





Outstanding Expense

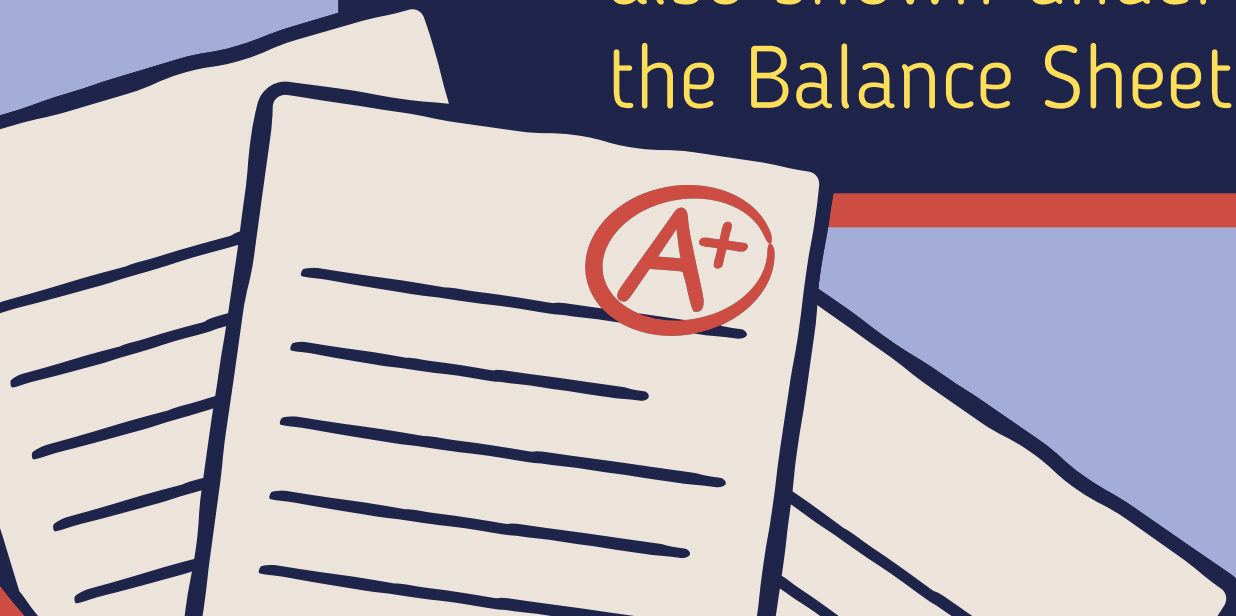


It is an expense that has been incurred but has not been paid.

Accounting Treatment

It is debited to the Profit and Loss Account and

also shown under the head Current Liabilities in the Balance Sheet.

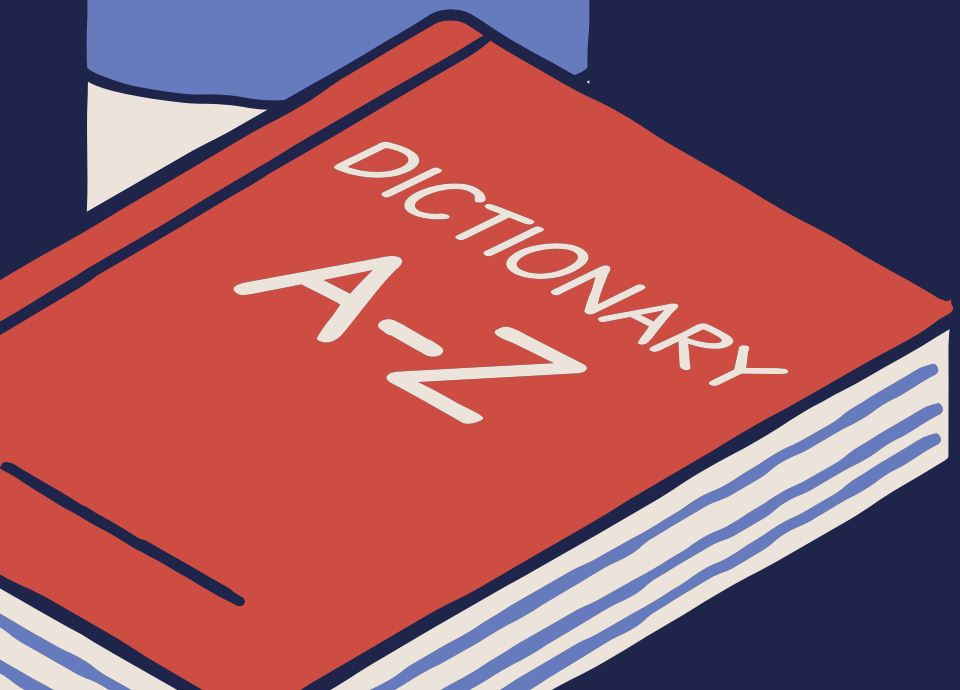




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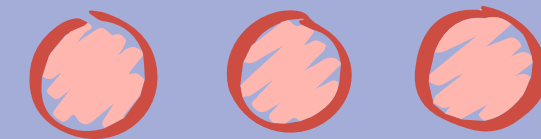
Q. Revenue



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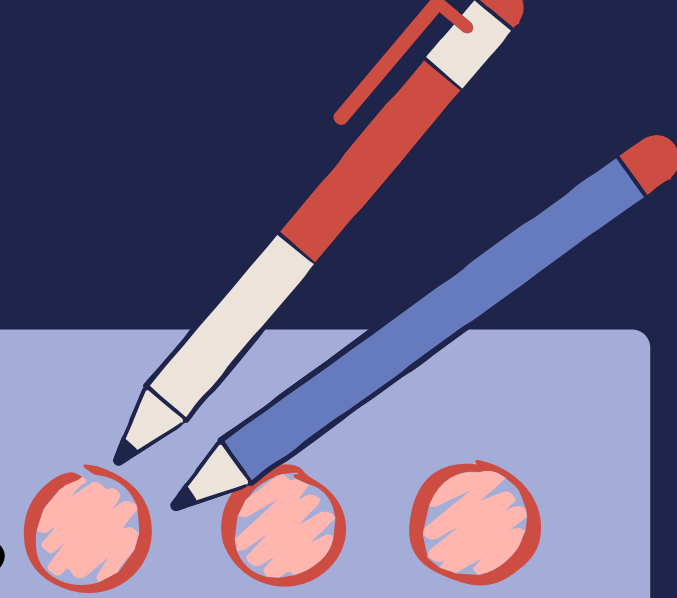
9. Revenue



Revenue is gross inflow of cash (received), receivables arising in the course of ordinary (operating) activities i.e. from the sale of goods, from rendering of services and other consideration (non-operating) activities of the enterprise i.e. interest, dividends, rent received, etc.



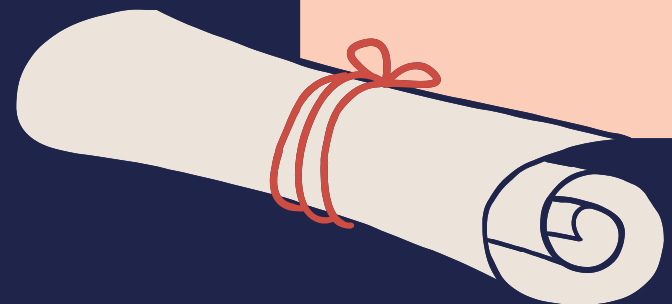
Revenue Earned by different activities



Operating activities are the daily activities of a business entity involved in producing and selling its product, generating revenues.

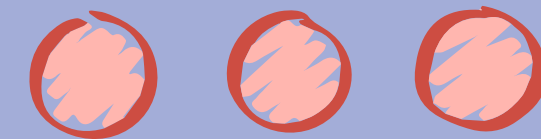


Non-operating activities is the portion of an organization's income that is derived from activities not related to its core business operations. It can include items such as dividend income, profits, or losses from investments, Non-operating income is also referred to as incidental or peripheral income.





9. Revenue



Total Revenue

Revenue from Operations (Sales) + Other Revenues

Revenue from Operations (Sales)
credit sale + cash sale

Other Revenues
Received + Receivable



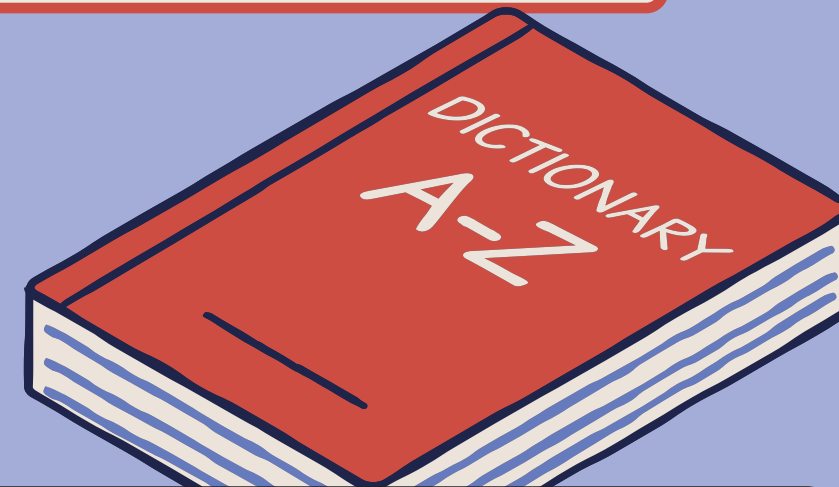


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Examples of Revenue

Receipts from sale of goods, rent received, commission earned, interest earned, royalty earned, dividend earned



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NOTE

Capital introduced by proprietor and loan taken is not Revenue





Exercise

Question 1 b:

Mr. Nikunj Mani dealing in electronic goods sold 20 TV sets costing ₹30,000 each at ₹40,000 each. Out of this ₹ 5,00,000 were received in cash and the balance is not yet received. He paid ₹ 10,000 as salary to his employee. and also received ₹ 5,000 as rent.

State the amount of Revenue.

Answer 1 b:

Revenue will be
Revenue from Operation(sales)
₹8,00,000 (i.e. 20 sets x ₹ 40,000).

+

Rent ₹ 5,000

Total Revenue – ₹8,05,000

Revenue is the amount either received (cash sales) or receivable (credit sales) from the sale of goods and services.

Both operating and non-operating are included in revenue.



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10. Profit



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10. Profit

Profit (Total Revenue - (All Expenses & Loss))

Expenses wages, rent, salery, cost of goods sold, etc.

Loss Bad debts etc





Exercise

Question 1 c :

Mr. Nikunj Mani dealing in electronic goods sold 20 TV sets costing ₹30,000 each at ₹40,000 each. Out of this ₹ 5,00,000 were received in cash and the balance is not yet received. He paid ₹ 10,000 as salary to his employee. and also received ₹ 5,000 as rent.

State the amount of Profit.

Answer 1 c:

Revenue from Operation(sales)
₹8,00,000 (i.e. 20 sets x ₹ 40,000).

+

Rent ₹ 5,000
Total Revenue - ₹8,05,000

Cost of good sold ₹6,00,000 (i.e. 20 sets x ₹ 30,000).

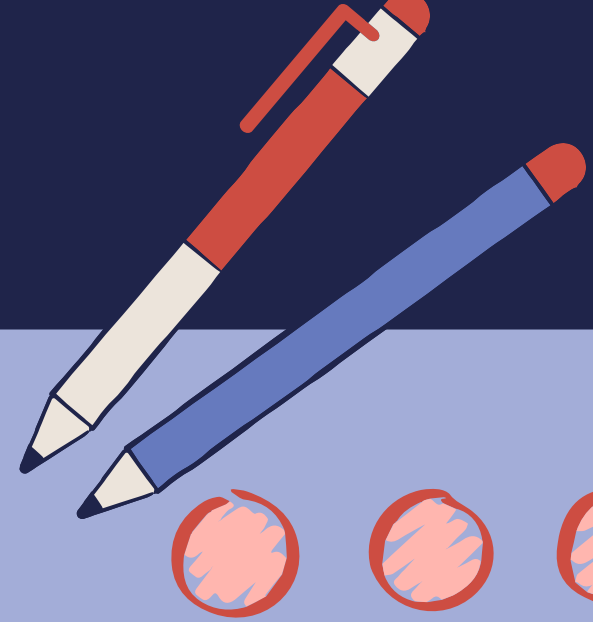
+

salary ₹ 10,000
expense ₹ 6,10,000

Profit (Total Revenue - (All Expenses & Loss))
Profit ₹8,05,000 - ₹6,10,000
₹1,95,000



We calculate profits at two levels



Gross Profit

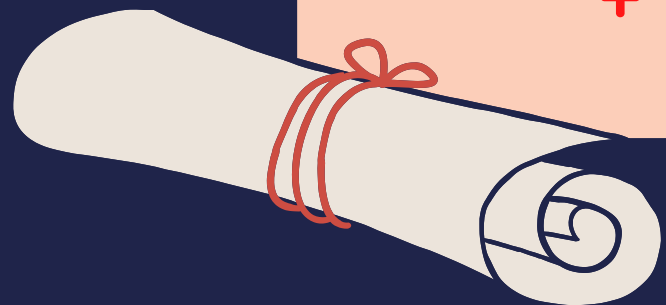
Gross Profit is the difference between **revenue from sales** and/or services rendered and its **direct cost**

Gross Profit → Revenue from Sale
- Direct Expenses (cost of Goods sold
+ factory related expenses)

Net Profit

Net Profit is the profit after deducting **total expenses** from **total revenue** of the enterprise.

Net Profit → (Revenue + Gain) - (Expenses & Loss)
or
Net Profit → Gross Profit + other Incomes -
Indirect Expenses (office-related expenses + losses)





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11. Income



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11. Income



Income is the **amount of profit earned** during an accounting period.

It is expressed as–

Income → **(Revenue – Expense)**

Income → **Net Profit – dividend**



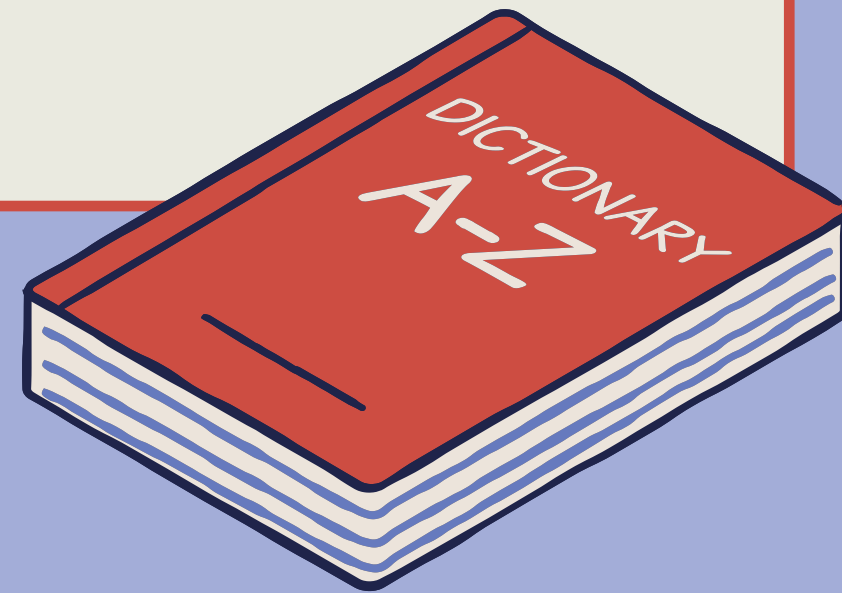


Examples of Income



Problem

Goods costing ₹25,000
are sold for ₹30,000



Sol

Income - (Revenue - Expense)

REVENUE- ₹

COST OF GOODS SOLD- ₹

INCOME- ₹





Profit differs from income

INCOME = PROFIT

INCOME \neq PROFIT





Exercise

Question 1 d :

Mr. Nikunj Mani dealing in electronic goods sold 20 TV sets costing ₹30,000 each at ₹40,000 each. Out of this ₹ 5,00,000 were received in cash and the balance is not yet received. He paid ₹ 10,000 as salary to his employee. and also received ₹ 5,000 as rent.

State the amount of Income.

Answer 1 d:

Revenue from Operation(sales)
₹8,00,000 (i.e. 20 sets x ₹ 40,000).

+

Rent ₹ 5,000
Total Revenue - ₹8,05,000

Cost of good sold ₹6,00,000 (i.e. 20 sets x ₹ 30,000).

+

salary ₹ 10,000
expense ₹ 6,10,000

Income (Total Revenue - Expenses)
Profit ₹8,05,000 - ₹6,10,000
₹1,95,000



Difference between Profit and Income

Basis	Profit	Income
Meaning	Difference between the amount earned and the amount spent in buying, operating, or producing something.	The actual amount of money earned
Dependents	Profit is very much dependent on the revenue.	Revenue is very much dependent on both revenue and profit.
Indicators	It indicates how much a company has earned over the total cost of sales.	It indicates what amount would be distributed among the shareholders or reinvested in the business





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12. Gain



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12. Gain

Gain is the **increase in owner's equity** resulting from something other than the day to day earning from **irregular or non-recurring nature**: Stating differently, it is a profit that arises from transactions which are not the Operating Activities of the business but are incidental to it such as gain on sale of land, machinery or investments,





Excercise

Question 2a:

During the year, machinery worth ₹ 3,00,000 was sold for ₹ 3,75,000.

State the amount of gain?

Answer 2b :

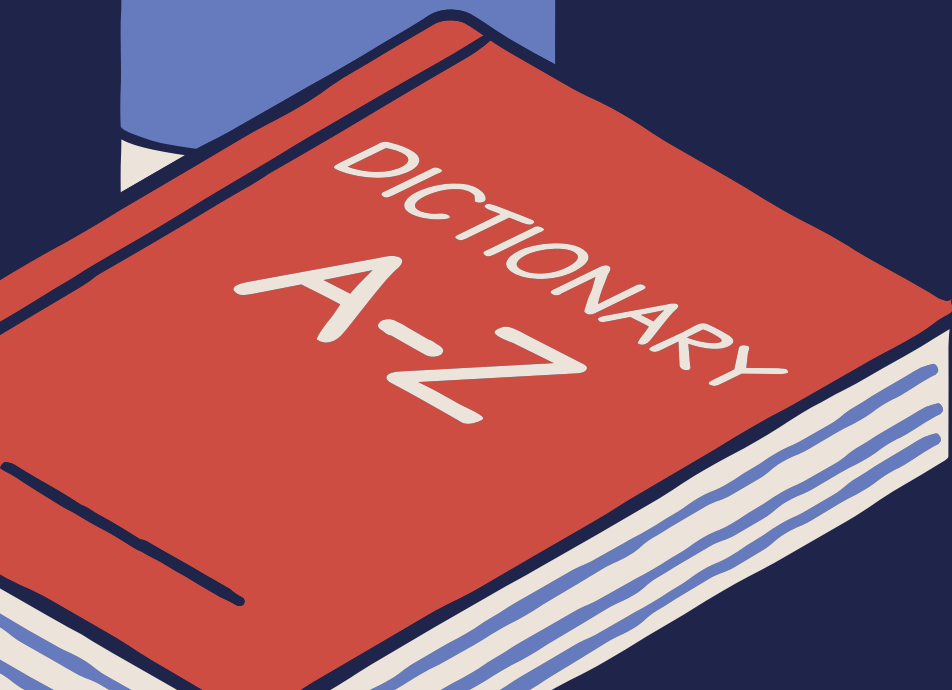
Gain
₹ 75,000



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Income VS Revenue VS Gain



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13. Loss



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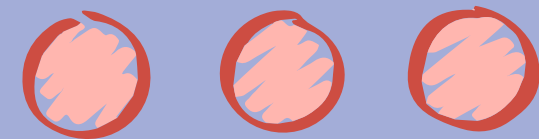


13. Loss (a)

In case total expenses are more than the total revenue, it is Net Loss

It decreases the owner's equity.

$$\text{LOSS} \\ \text{EXPENSES} - \text{REVENUE}$$





Exercise

Question 3:

Mr. Nikunj Mani dealing in electronic goods sold 20 TV sets costing ₹30,000 each at ₹25,000 each. Out of this ₹ 5,00,000 were received in cash and the balance is not yet received. He paid ₹ 10,000 as salary to his employee. and also received ₹ 5,000 as rent.

State the amount of Loss.

Answer 3:

Revenue from Operation(sales)
₹5,00,000 (i.e. 20 sets x ₹ 25,000).

+

Rent ₹ 5,000

Total Revenue = ₹5,05,000

Cost of good sold ₹6,00,000 (i.e. 20 sets x ₹ 30,000).

+

salary ₹ 10,000

expense ₹ 6,10,000

Loss (Expenses - Total Revenue)

loss ₹6,10,000 - ₹5,05,000

₹ 95,000



13. Loss (b)

It is a broad term and includes loss incurred in its operating (business) activities, money or money's worth lost against which the firm receives no benefit, e.g., cash or goods lost in theft and loss arising from events of non-recurring nature, e.g., loss on sale of fixed assets





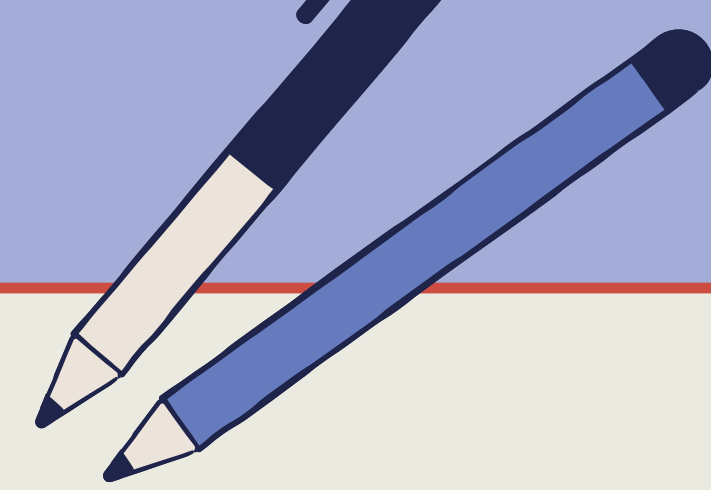
Excercise

Question 2a:

During the year, machinery worth ₹ 3,00,000 was sold for ₹ 2,50,000.
State the amount of loss?

Answer 2b :

Loss
₹ 50,000



Exercise



Revenue from Operations refers to:

(a) Revenue earned from Operating Activities.

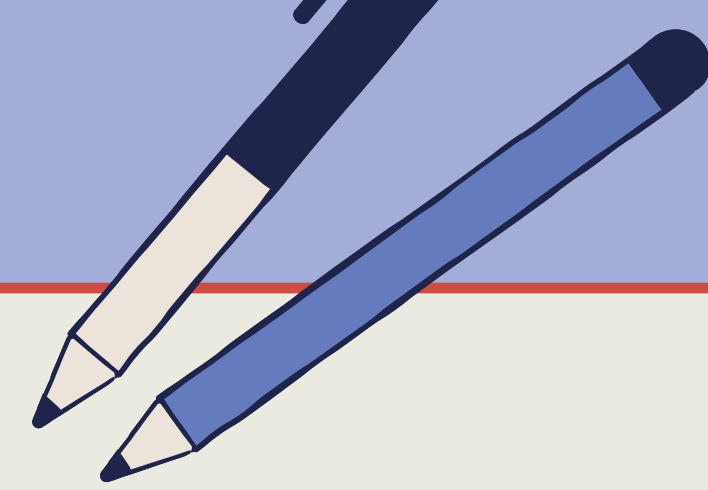
(c) Both (a) and (b).

(b) Revenue earned from activities that are not Operating Activities.

(d) None of the above



Excercise



Identify the item of Revenue from Operations of a financial enterprise out of the following:

(a) Interest earned on loans

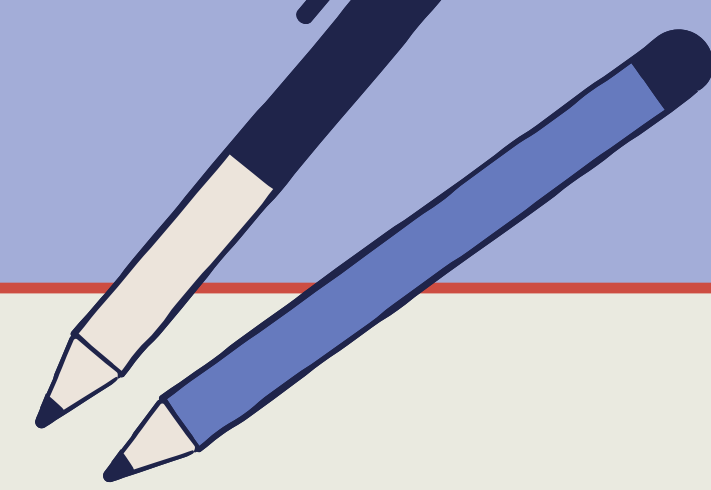
(c) Services rendered

(b) Sale of Goods

(d) None of these



Exercise



Identify the item of Revenue from Operations of a non-financial enterprise out of the following:

(a) Interest earned on loans

(c) Both (a) and (b).

(b) Sale of Goods

(d) None of these

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Additional Resources



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Homework

Learn these Basic Accounting Terms

**Coming Soon:
Part 4 of this Video**





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Thank You

See You Next Time

**Coming Soon:
Part 4 of this Video**

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