**Class: XI**

**Subject: Accountancy**

**Unit: 1 Introduction to Accounting (Continuation)**

**Module-2**

**Content**

**8. Qualitative characteristics of accounting information**

**9. Role of accounting in business**

**10. Basic accounting terms**

**Accounting Information - Qualitative Characteristics**

**Reliability**: It means the information must be based on facts and be verified through source of documents by any one. It must be free from bias and errors.

**Relevance**: To be relevant, the information must be available in time and must be influence the decisions of the users by helping them to form prediction about the outcomes.

**Understand ability**: The information should be presented in such a manner that users can understand it well.

**Comparability:** The information should be disclosed in such a manner that it can be compared with the previous year

**Role of Accounting in Business**

1. It describes and analyses a mass of data of an enterprise through measurement, classification and summarisation and reduces those data in to report and statement.
2. It shows the financial condition and results of operations of those enterprises. Therefore it is regarded as a language of business
3. It also performs the service activity by providing quantitative financial information that helps users in various wages.
4. It collects and communicates economic information about an enterprise to a wide variety of interested parties.
5. It does not provide qualitative and non financial information.

**Basic Accounting Terms in Business Transaction**

**1. Entity:** A specifically identifiable business enterprise like super Bazaar, jewellery mart, ITC Limited, BHEL,

**2. Transaction:** Any activities which involves transfer of money or money’s worth ( goods , services, ideas) from one person to another person

Ex: Goods purchased on cash for Rs 10000/-

**3. Account:** account refers to a summarized record of relevant transactions of particular head at one place. All accounts are divided in to two sides. **Left side** account is called Debit side and the **right side** is called Credit side

|  |  |  |  |
| --- | --- | --- | --- |
| **Date** | **Particulars** | **Dr** | **Cr** |
| **01/07/20** | **Goods a/c Dr** | **10000** |  |
|  | **To cash a/c** |  | **10000** |

**4. Capital:** IT is the amount invested by owner or proprietor in an organisation

**5. Drawings:** It is the amount of cash or goods worth withdrawn from the business by the owner for the personal use of the owner

**Assets**

Assets are valuable and economic sources of enterprises which has money value it can be broadly classified in to two.

1. **Current assets** ; Current assets are those assets which are held for short period and can be converted in to cash within one year Ex: cash in hand , cash at bank, debtor, bills receivable , short term investment , stock, loose tools etc.
2. **Noncurrent assets**: Noncurrent assets are those assets which are hold for long period and used for normal business operation Ex: Land & Building, furniture & fixtures, plant & machinery. These are further classified in to two

a) **Tangible assets:** Those assets which has physical existence and can be seen and touched Ex: Furniture, Machinery etc.

b) **Intangible assets**: Intangible assets are those assets which have no physical existence and cannot be seen. E: goodwill, Patents, copy rights, trade mark etc.

**Liabilities**

**Liabilities are obligations or debts that an enterprise has to pay after some time in the future**

1. **Current liabilities:** current liabilities are obligations or debts that are payable within a period of one year Ex: Creditors, Bills payable etc.
2. **Non –Current liabilities:** Those obligations or debts that are payable after a period of one year Ex: Bank loan, Debenture etc.

**Receipts**

**1. Revenue receipts:** Revenue receipts are those receipts which are frequently occurred by normal operation of business like money received by sale of business product .Ex: Rent, Royalty.

**2. Capital receipts:** capital receipts are those receipts which are occurred by other then business operation Ex: like money received on sale of goods

**What do you mean by expenses and expenditure?**

Expenses: cost incurred by a business for earning revenue are known as expenses Ex: rent, wages, salaries, Interest paid.

Expenditure: Spending money or incurring a liability for acquiring assets, goods or service is called expenditure, these expenditure are classified in to tree.

1. Revenue Expenditure: It is the amount spent to purchase goods and services that are used during financial year Ex: rent, interest.
2. Capital expenditure: If the benefits of expenditure are received for more than one year, it is called capital expenditure Ex: purchases of Machinery.
3. Differed Revenue Expenditure There is certain expenditures which are revenue in nature but t benefit of which is derived over number of years. Fe , Huge advertisement expenditure

Profit: The excess of revenues over its related expenses during an accounting year is profit

So profit= Revenue – Expenses

Gain: A non recurring profit from events or transactions incidental to business such as sale of fixed assets, appreciation in the value of an asset etc.

Loss: The excess of expenses of a period over its related revenues is termed as loss.

**Goods and cash are base for purchase, sales, debtors and creditors**

Goods: The products in which the business deals in. the items that are purchased for the purpose of resale and not for use in the business are called goods.

Purchases: The item purchases are used only for the goods produced by a business for resale. In case of trading concern s it is purchases of final goods and in manufacturing concern it is purchases of raw materials. Purchases may be cash purchases or credit purchases.

Purchase Return: When purchased goods are returned to the suppliers, theses are known as purchase return.

Sales: Sales are total revenues from goods sold or services provided to customers. Sales may be cash sales or credit sales.

Sales Return: When goods are returned from customer due to any reason is known as sales return.

Debtors: Debtors are persons / other entities to whom business has sold goods and services on credit and the amount has not received yet . These are current assets of the business.

Creditors: If the business buys goods and services on credit and amount is still to be paid to the person or other entities are called creditors. These are the current liabilities for the business.

**Bills receivable, bills payable, Discount and its type**

Bills Receivable: Bills Receivable is an accounting term of bills of exchange. A bill of exchange is bills receivable for seller at the time of credit sale

Bills Payable: Bills Payable is also an accounting term of bills of exchange. A bill of exchange is bills payable for purchaser at the time of credit purchase.

Discount: Discount is the rebate given by the seller to the buyer. It can be classified in to two

1. Trade Discount: The purpose of this discount is to persuade the buyer to buy more goods. It is offered at an agreed percentage of list prices at the time of selling goods. This discount is not recorded in the accounting books as it is deducted in the invoice / cash memo.
2. Cash Discount: The objective of providing cash discount is to encourage the debtors to pay the dues promptly. This discount is recorded in the accounting books.

**Income, stock, cost and voucher**

Income: Income is a wider term, which includes profit also. Income means increase in the wealth of the enterprise over a period of time.

Stock: The goods available with the business for sale on a particular date is known as stock.

Cost: Cost refers to expenditures incurred in acquiring manufacturing and processing of goods to make it saleable.

Voucher: The documentary evidence in support of a transaction is known as voucher. For example, If we buy goods for cash we get cash memo, if we buy goods on credit, we get an invoice , when we make payment we get a receipts .