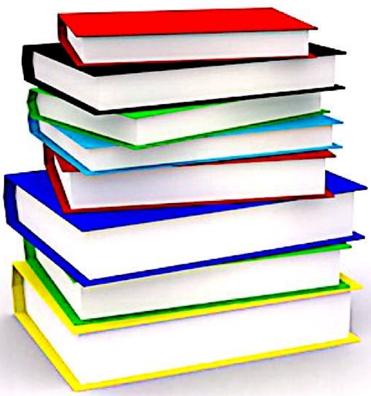
MyFreePPT

Accounting made easy

- *BEGINNER LEVEL*



Basic concepts

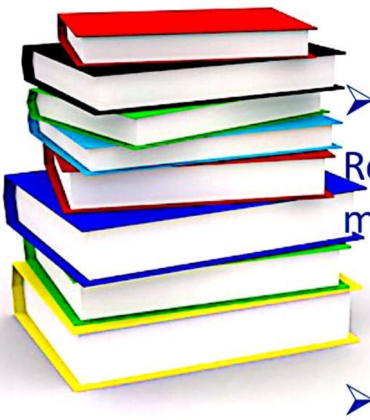
- **Transaction**

Any exchange activity in the business is called transaction.

- Cash transaction and credit transaction. Cash transaction involves exchange of cash , credit transaction involves deferment of cash receipts and cash payments.

- **Goods**

The items which are a regularly purchased or sold in the ordinary course of business are called goods.



- **Money measurement.**

Record is made only of information that can be expressed in monetary terms

➢ **Entity**

Accounts kept for entities, are distinguished from the persons who associated with these entities

➢**Going concern**.

Entity will continue to operate for an indefinitely period in the futu

➢**Cost concept**

The economic resources of an entity is ordinarily entered in the acc records at the price paid to acquire it

➢**Equity /capital**

Capital is the amount invested by the owner or promoter initially t the business. It is a liability for the entity.

➢**Debtors** / **Accounts Receivables**

Debtors are those who owe to the entity on account of credit sales

➢**Creditors/Accounts Payables**

Creditors are those to whom the entity owe on account of credit purchases.

Accounting period

Accounting measures activities for a specified interval of time called accounting period. In india the accounting period starts from 1^{st} of April of a year and ends on 31^{st} march of next year. Some countries have calender year as accounting period.

Balance Sheet (BS)

A financial statement that reports on all of a company's assets, liabilities, and equity. As suggested by its name, a balance sheet abides by the equation <Assets = Liabilities + Equity>.

Assets

Anything the company owns that has monetary value. These are listed in order of liquidity, from cash (the most liquid) to land (least liquid).

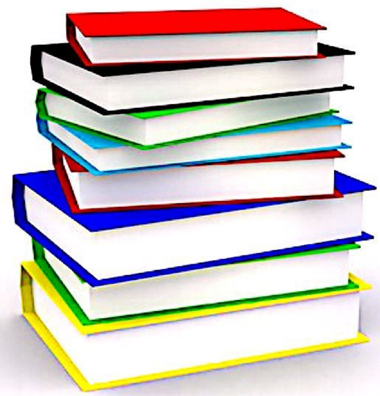
Liability

All debts that a company has yet to pay are referred to as Liabilities. Common liabilities include Accounts Payable, outstanding expenses and Loans.

Accrued Expense /Outstanding expenses
An expense that been incurred but yet to be paid.

Book Value
As an asset is depreciated, it loses value. The Book Value sho
the **original value** of an Asset, **less any accumulated Depreciation.**

Current Assets
Those assets which are convertible into cash in a short perio
time usually within 12 months from the balance sheet date.



Non Current assets
Those assets which are not purchased to be sold in the near future but are intended to be utilised in the production of go
Examples are building, plant and machinery and vehicles.

Intangible assets
Assets which are not tangible . Example: goodwill, copyrights

Cost of Goods Sold (COGS)

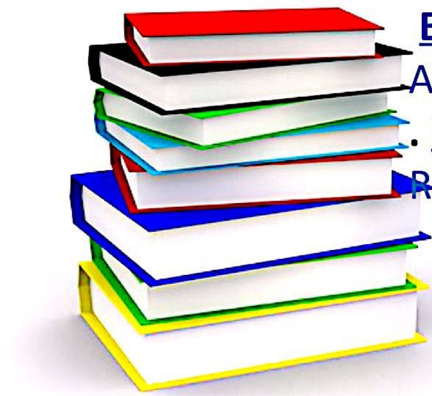
Cost of Goods Sold are the expenses that directly rela
the manufacturing of a product or creation of the serv
Example: raw material, labour, direct expenses.

Depreciation

Depreciation is the term that accounts for the loss of value in an a
over time.

Inventory

Those finished goods which remain unsold on the bal
sheet date. They are valued at lower of cost or marke
value.



Expense (Cost)

An Expense is any cost incurred by the business.

. **Revenue (Sales) (Rev)**

Revenue is any money earned by the business.

Gross Profit (GP)

Revenue minus cogs is gross profit

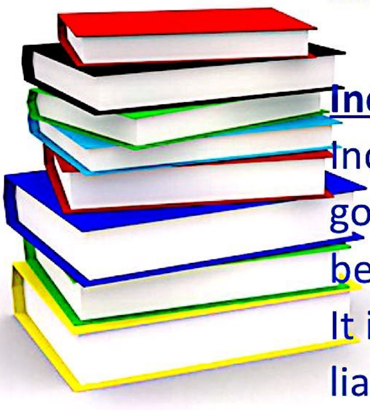
Net Profit (NP)

Gross profit minus indirect expenses

Prepaid Expenses

Expenses which are paid in advance for which the benefits are expected to be obtained in the period beyond the current accounti period.

It is treated as current asset and shown in the Balance sheet on ass side.



Income received in advance

Income received in advance is treated as liability as the benefits or goods related to the income so received would be delivered in a pe beyond the current accounting period.

It is treated as current liability and shown in the Balance sheet on liability side.

Capital and Revenue Transactions

Capital transactions

- The effect of these transactions extends to a period of more than one year. **Examples** are Purchase of machine{including installation charges and any other direct cost to bring the asset to the location}, building investments etc.

- It includes capital work in progress.

Revenue transactions

- The effect of these transactions is only for a period of one year. Examples are sales, purchases of raw material, expenses to run the business smoothly.

- It includes depreciation { non cash expense} to reflect the usage of fixed assets in generating the revenue during the year.