Accounting Terminology

- **Balance sheet:** A balance sheet is an itemized statement which lists the total assets and the total liabilities of a given business to show its net worth at a given moment in time (like a snapshot).
- **Capital:** Property or money used and owned by a business and used to acquire future income or benefits.
- **Debtor:** A debtor is a person who owes money. The amount due from his is called debt.
- **Creditor:** A person to whom money is owing or payable is called a creditor.
- **Credit:** An entry on the right side of a ledger account.

Objective of Accounting

- To keeping **systematic record**
- To **ascertain** the **results** of the operation
- To **ascertain** the **financial position** of the business
- To portray (show / describe) the **liquidity position**
- To **protect business properties**
- To facilitate **rational decision – making**
- To satisfy the requirements of law

- **Business:** An organization created with the objective of making a profit from the sale of goods or services.
- **Book keeping:** The act of systematically recording the financial transactions affecting a business.
- **Book Value:** The net amount (original value plus or minus any adjustments such as depreciation) showed in the accounts for an asset, liability, or owners' equity item.
- **Calendar Year:** An entity's reporting year, covering 12 months.
- **Transactions:** Exchange of goods or services between businesses or individuals. Can also be other events having an economic impact on a business.

Attributes of Accounting

- It is the art of recording business transactions.
- It is the art of classifying business transactions.
- The transactions or events of a business must be recorded in monetary terms.
- It is the art of summarizing financial transactions.
- The results should be communicated to users.

Basis of Accounting

- **Accrual basis**
  - The income whether received or not but has been earned or accrued during the period forms part of the total income of the period.
  - The firm has taken benefit of a particular service, but has not paid within that period, the expenses will relates to the period in which the service has been utilized and not to the period in which payment for it is made.

- Records only monetary transactions
- Effect of price level changes not considered
- No realistic information
- Personal bias of accountant affects the accounting statements
- Permits alternative treatments (LIFO, FIFO)
- No real test for managerial performance
- Historical in nature

FEATURES OF ACCOUNTING

- RECORDING – art of recording business transactions in systematic manner.
- CLASSIFYING – It involves the grouping of transactions of same categories under one head.
- SUMMARIZING- It is the art of presenting business transactions in a manner which is understandable and useful to management .

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- TO KEEP A SYSTAMATIC RECORD
- TO ASCERTAIN THE RESULTS OF OPERATIONS(profit/loss)
- TO ASCERTAIN FINANCIAL POSITION OF BUSINESS.
- TO FACILITATE RATIONAL DECISION MAKING
- TO SATISFY REQUIREMENT OF LAW AND USEFUL IN MANY RESPECTS.
- PROVIDING EFFECTIVE CONTROL OVER THE BUSINESS
- MAKING INFORMATION AVAILABLE TO VARIOUS GROUPS

- INCOMPLETE INFORMATION
- INEXACTNESS
- SHOWING VALUE LESS ASSETS
- MANIPULATION
- IGNORANCE ABOUT THE PRESENT VALUE OF BUSINESS
- WINDOW DRESSING