# Tally

- **<u>Proprietor/ Owner</u>:-**The person who takes the initiative to start the business, invests his money or money's worth and bears the risk of the business is called proprietor.
- **<u>Capital: -</u>** It is the amount invested by proprietor into business. It may be in cash or in kind. Capital is increased with the amount of profits and is decreased with the amount of losses and drawings.
- **<u>Drawings: -</u>** It is the amount or benefits withdrawn by the owner from the business for personal or domestic use. It may be in the form of cash, goods or assets.

  **<u>Example :-</u>**Sukhmani started business with cash with rs.50,000 and own furniture rs.10,000. After sometimes, she withdrew rs.3000 from business for her personal use.

  In this case sukhmani is the proprietor of business. Cash rs.50, 000 and furniture rs.10, 000 introduced by the owner in the business represents capital, so capital in this case is rs.60, 000. Withdrawal of rs.3000 made from the business for personal use is the drawings.
- **<u>Business transaction</u>**: - Any exchange of goods or services for cash or on credit by the business with any other person is a business transaction. Transaction is an economic activity of the business that changes its financial position.
- **<u>Debtors</u>**: - The person from whom amounts are due for goods sold or services rendered or in respect of contractual obligations is called debtors. The debtors are collectively called "sundry debtors". The total amount due from sundry debtors is called "book debts".
- **<u>Creditors: -</u>** The person to whom amount is owed by the enterprise on account of goods purchase or services rendered or in respect of contractual obligations is called creditors. The creditors are collectively called "sundry creditors" or "Trade creditors" or "Total creditors".

  **<u>Example: -</u>** Ram sold goods to sham for rs.40, 000 on two months credit. It is a credit transaction for the business of Ram; Sham is a debtor because he owed rs.40, 000 to Ram on account of goods sold to him. For the business of sham, Ram is a creditor because sham owes rs.40, 000 to him on account of good purchased.

- **<u>Receivables</u>**: - It means the amount which outsiders owe to the business on revenue accounts. When goods are sold on credit to customers, they may accept bills drawn by the seller. These bills of exchange for a creditor are known as bills receivables. These are realizable within a year and are part of current assets. The total of debtors and bills receivables is known as "Accounts receivables".
- **<u>Payables</u>**: - It means the amount which business owes to outsiders on revenue accounts. When goods are purchased on credit from suppliers, the customer may accept bills drawn by the seller. These bills of exchange for a customer are known as bills payables. These are payables within a year and are part of current liabilities. The total of creditors and bills payables is known as "Accounts payable".

  **<u>Example</u>**: - Sharma sold goods on credit to khan; Sharma draws a bill on khan for the amount due, which was duly accepted by khan. Sharma will record this bill of exchange as 'Bills receivables' in his books and khan as 'Bills payables'. For Sharma, it is an asset and for khan, it is a liability to be paid in a specified short period.
- **<u>Debit and credit:</u>**-The left hand side of any amount is arbitrarily called Debit side, and right side is called Credit side. The words Debit and credit have no other meaning in accounting.

  Debit is abbreviated is Dr. and credit as Cr. in accounting. The word debit is derived from the Latin word 'debitur' which means debtor. Credit is derived from the Latin word 'creder' which means lender. Apparently, the abbreviations Dr. and Cr. are taken from the first and last letters of the Latin words. In accounting, debit and credit do not means debtor and creditor.
- **<u>Goods</u>**:-It implies all those articles which have been purchased by the enterprise for sale in the usual course of business. It also includes raw material purchased for further processing.

  **<u>Example: -</u>** Furniture purchased is a good for furniture dealer; cars purchased are goods for car dealer but furniture or cars purchased by cloth merchant or fan manufacturer are assets for them because these items are not meant for resale in the ordinary course of business.

- **Purchase**: - The purchase of raw material for production or purchase of finished goods for sale is called “purchases”. The term purchase is used for the purchase of goods and not for the purchase of assets. When asset is purchased, an asset account is opened.
- **Sales: -** For the sale of finished goods, the term ‘sales’ is used. It may be ‘Cash sales’ or ‘Credit sales’. When an asset is sold, the asset account is credit and not the sales account. When goods are sold at a discount, sales is credited with net amount i.e., after deducting trade discount.
- **Purchase returns or returns outward**: - It is that part of the goods purchased, which is returned to the seller. The reason of return may be supply of defective goods, goods not as per specifications or any other reason. In order to calculate net purchases of business, purchase return is deducted from the purchases. Purchase return is also known as ‘Return outward’ because the goods are going out form the business to the suppliers.
- **Sales return or return inward: -** It is that part of the goods sold, which is returned by the customer to us. The reason of return may be excessive, unspecified or supply of defective goods, etc. In order, to calculate net sales of the business, sales return is deducted from sales. Sales return us also known as ‘Return Inward’ because the goods are coming back in the business from the customers.

  **Example: -** Malika sold to Isha for rs.60, 000 of which the latter returned goods to former for rs.8000. For malika, sales are of rs.60, 000, sales return is rs.8000 and net sales rs.52, 000. For Isha, purchase is of rs.60, 000; purchase return rs.8000 and net purchases rs.52, 000.
- **Stock**: - The goods left unsold at the end of the accounting period is called closing stock. The stock may be of raw material, work-in-progress or finished goods. The closing stock of one accounting period will become the opening stock of the next accounting period.
- **Assets: -** An asset is any owned physical object or right, having a money value. In other words, assets are economic resources which are owned by a business and from which future economic benefits are expected to flow to the enterprise.

  “Assets are economic resources which are owned by a business and expected to benefit future operations”.

  -W.B. Meigs and R.F. Meigs

"An asset is any physical object or right having a money value".

-Eric L. Kohler

"Assets are things of value to be included in its balance sheet, the business must have acquired the right to use or control the asset for the benefit of business".

-Finnery and Miller.

Cash, Debtors, Investments, stock of goods, Plant and Machinery, Land and building, computers, vehicles, goodwill etc. are the examples of asset.

Assets are of three types:-

a) Fixed assets
b) Current assets
c) Fictitious assets.

- **Fixed assets:** - It refers to those assets which have been purchased by the enterprise for long term use and not for resale in the ordinary course of business. The benefit from fixed assets is derived over a long period. Fixed assets may be classified as follows:-
  I. Tangible fixed assets: - It refers to those fixed assets which can be touched and seen. These may include movable assets; immovable assets; wasting assets.
  II. Intangible fixed assets: - It refers to those fixed assets which cannot be touched and seen. These are usually the rights to use, produce or provide the goods and services. For eg: - Goodwill, patent right, copyright, trademarks, franchises, etc.
- **Current assets :**- Current assets are those assets which are held:-

I. In the form of cash.
II. For their conversion into cash, as early as possible (usually within one year), and
III. For their consumption in the production of goods.

For example:- Cash in hand, cash at bank, stock of finished goods, debtors, bills receivable, stock of raw material etc.

Liquid asset is a varied form of current assets. Liquid assets are those assets which are in cash form or can be easily convertible into cash in a very short period.

For example: - Cash in hand, cash at bank, short term investments and short-term advances. The difference of the liquid assets from the current assets can be judged from the following line:

All liquid assets are current assets but all current assets may not be liquid.

- **Fictitious assets: -** It refers to those assets which do not have any physical form and have no realizable value. Such assets cannot be converted into cash. These are shown as assets because of their non-recurring nature. All non-recurring payments are shown as assets.
  For example: - Expenses incurred before the formation of company expenses on issue of shares or debentures by the companies, discount on shares or debentures etc.

➢ **Equity: -** In broad sense, the term equity refers to all claims or rights against the assets of the business, someone has paid for it or the amount is payable to someone for this. The amount payable to such persons is called equity. It is further divided into two categories:-

- Owners' equity and,
- Outsiders' equity.

Owners' equity is called capital and outsider's/ creditor's equity is called liabilities.

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| Owners' equity+ Outsiders' equity = Assets.<br><br>Capital +Liabilities = Assets. |

➢ **Liabilities:-** It refers to an amount owing by one person to another payable in money, goods or services. In general, liabilities are financial obligations to outside parties arising from events that have already happened.

Thus, liability is the amount which arises as a result of purchase of goods or services from other on credit and through cash borrowings to finance the business.

Liabilities may be broadly classified as follows :-

- **Current liabilities: -** It refers to those liabilities which fall due for payments in a relatively, short period. These are also known as 'Short term liabilities'. For example: Creditors, Bills payables, short term loans, outstanding expenses etc.
- **Fixed liabilities: -** It refers to long term liabilities which are payable after a period of one year. These are also known as 'long term liabilities'. For example: Long term loans, public deposits, debentures etc.
- **Contingent liabilities: -** It refers to the amounts which may or may not become payable in future. Future events may decide whether it is really a liability or not. Due to their uncertainty, these are known as contingent liabilities. For example: Financial cases pending against the business in the court of law, guarantees under taken on behalf of others, etc.

➢ **Expense/ Cost: -** Expense is the portion of the expenditure which has been consumed during the current accounting period to earn revenue. Since expenses are the cost of goods or services used up, they are, also called expired cost. Example includes salaries paid, postage, advertisement, depreciation on assets.

➢ **Expenditure: -** Expenditure is the amount spent or liability incurred for the value received. It may be classified into two categories:-

- **Revenue expenditure:**-The amount incurred for the purchase of goods and services which are consumed during the current period is called revenue expenditure.
- **Capital expenditure: -** The payment made for the purchase of assets from which the benefit will be derived in future is called capital expenditure.

➢ **Loss: -** Loss is an unwanted burden on the business, which does not generate any revenue for the business. It may be classified as normal loss and abnormal loss. Normal loss arises due to inherent nature of the product, such as evaporation, leakage, shrinkage, loss of weight, etc. on the other hand, abnormal loss is the result of some mishappening, such as fire, theft, earthquake, flood, storm etc. The excess of expenses or revenues is also termed as loss. Loss always decreases owner's equity.

- **Profit: -** Excess of revenue over expenses is termed as profit. Profit always increases owner's equity.
- **Revenue: -** It is a flow of benefit to the business generated out of resources controlled by it. It always makes addition to the capital and assets of the business. In the trading and manufacturing enterprises, it results from the sale of goods. In case of professionals like chartered accountants, lawyers, doctors, architects etc revenue is generated in terms of fees. It may also be earned by way of interest on investments, dividend on shares, royalty on mines, etc.
- **Income:-**Income is increase in the net worth of the enterprise from business or non-business activities. It is a wider term which includes profit also.
- **Gain: -** It is a profit of an irregular nature such as, profit on sale of fixed assets. The gain may be classified as short term or long term depending upon the period for which asset is held in the business.

**Discount: -** The reduction in the prices of the goods allowed by an enterprise to the customers is called discount. The reduction allowed in the prices of goods at the time of sale of goods is called trade discount but reduction allowed in the prices of goods for quick payment is called cash discount.