GLOSSARY OF ACCOUNTING TERMS

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Accounting: Accounting is the process of recording financial transactions pertaining to a business. The accounting process includes summarizing, analysing and reporting these transactions to the management, owners, government and other stakeholders.

Accounting method: An accounting method refers to the rules a company follows in reporting incomes and expenses. The two primary methods of accounting are accrual accounting (generally used by companies) and cash accounting (generally used by individuals). Cash Accounting reports incomes and expenses on actual receipt or payment basis. Accrual accounting reports them as they are earned or incurred.

Accounting Policies: Accounting policies are the specific principles and procedures implemented by an enterprise to prepare its financial statements. Eg. Use of WDV method to compute depreciation or use of FIFO method to value inventory.

Accounting Standards: Accounting standards are the rules and guidelines that companies must follow when maintaining & reporting financial data. In India, accounting standards are issued by the Institute of Chartered Accountants of India (ICAI).

Accounting Ratios: Accounting Ratios are ratios used to define or understand the relationship between 2 or more financial data points. Eg. Net Profit ratio defines the relationship between the net profit and sales.

Accrual: Accrual accounting is an accounting method where incomes & expenses are recorded when they are earned or incurred. This allows a company to record income when it has arisen, irrespective of when money is actually received or record expenses when they arise irrespective of when the payment for them has been made.

Accrued Income: Accrued income means income which has become due or receivable, but has not been received as on date. Such accrued income is treated as an asset of the business.

Accumulated Depreciation: Accumulated depreciation is the cumulative depreciation charged on an asset for the entire period from the date it was out to use to the current date. Eg. A Machine is purchased on 1/4/2015. The accumulated depreciation as on 31/03/2022 would be the total depreciation provided from 1/4/2015 to 31/03/2022.

Abnormal gain: If normal loss of output is less than expected, the difference in quantity is called abnormal gain. Abnormal gain is valued at cost per unit.

Abnormal loss: If actual output in a manufacturing process is less than expected, the differential quantity is known as abnormal loss. Abnormal loss is valued at cost per unit.

Absorption of companies: Absorption is a process where one company takes over another company / companies resulting in the merger of the companies into a single company.

Admission of partner: Admission of a partner is a process where a new partner joins a partnership firm.

Advance Tax: Advance tax is the amount of income tax payable by an assessee in specified instalments & on specific dates during an assessment year. In India, advance tax is to be paid in 4 instalments within 15th June, 15th September, 15th December & 15th March each year.

Adverse audit report: An adverse audit report is a report issued by an auditor in cases where the books of accounts of a company are not maintained as per the accounting principles and standards and the financial statements of the company do not reflect a fair position of its assets & liabilities.

Administrative Expenses: Administrative expenses are those expenses which an organization incurs that are not directly tied to a specific core function such as manufacturing, production, or sales. These are general expenses incurred for the supporting business functions or the smooth functioning of the business. Eg. Salaries, Office Rent, Printing & Stationery.

Amalgamation: An amalgamation is a combination of two or more companies into a new entity. Amalgamation is distinct from a merger because neither company involved survives as a legal entity. Instead, a completely new entity is formed having the combined assets and liabilities of the amalgamating companies.

Amortisation: Amortisation means writing down or reducing the value of an asset.

Average Clause: Average clause is a condition applied for calculating an insurance claim in case an asset is under-insured ie. The value of insurance policy taken is less than the value of the asset insured. In such a case, in an event of a loss, only the proportionate claim is paid by the insurance company by applying the following formula:
(Loss suffered x Value of Insurance Policy) / Value of Asset on date of the loss

Audit: Audit is a process where an auditor conducts verification of books of accounts of an entity and submits his report, with an objective to detect errors, to ensure that books of accounts are maintained as per the prescribed accounting standards and policies and to confirm whether the financial statements show a true & fair view of the financial affairs of the entity.

Audit programme: Audit programme is a detailed plan prepared by the auditor before conducting an audit.

Audit working papers: Audit working papers refer to the detailed audit plan, audit working, observations, documentation & findings recorded by an auditor during the course of an audit.

Balance Sheet: Balance sheet is a financial statement that reports an entity's assets, liabilities & equity as on a particular date.

Bank Overdraft: Bank overdraft indicates a situation where a bank allows payments in excess of the available bank balance up to a prescribed limit. This results in a negative or credit bank balance.

Bill of Exchange: Bill of exchange is a negotiable instrument where one party promises to pay another party a fixed sum of money on a pre-determined date.

Bill of Lading: Bill of lading is a legal document indicating the quantity & description of goods being transported through a ship.

Bonus issue: Bonus issue is the issue of shares or securities by a company to its shareholders without any receipt of consideration.

Book Value: Book value is the carrying value of an asset after reducing the accumulated depreciation from the cost of the asset. It is the net value of an asset reflected in the Balance Sheet. It is also known as 'Written Down Value'.

Borrowed funds: Borrowed funds indicate the total of amount borrowed by a company through banks, financial institutions, debenture holders, depositors, etc.

Branch accounting: Branch accounting is a system of accounting where accounts of different branches of an enterprise located at different places are maintained separately to determine the business performance of each branch.

Break-even point: Break-even point (BEP) is the level of output at which total sales is equal to the total cost. At this point, profit earned by a business is zero & contribution is equal to fixed cost. If output is more than BEP, the business will earn a profit & if it is less than BEP, the business will incur a loss.

Budget: A budget is an estimation of the incomes or expenses based upon projected level of activity.

Buyback: Buyback is a process by which a Company buys back (and cancels) its own shares from the shareholders.

Calls in arrears: Calls in arrears are the amounts called up or receivable from the shareholders against the shares applied or purchased by them.

Capital expenditure: Capital expenditure is the expenditure incurred by a business resulting in long term benefits, either through an addition of a long-term asset or repayment of a long-term liability. Eg. Purchase of Machinery, Repayment of bank loan.

Capital gains: Capital gains is the profit arising on the sale of a capital asset, computed as per the provisions of the Income Tax Act, 1961.

Capital profit / loss: Capital profit is the profit arising on the sale of a long term / capital asset. Similarly, a capital loss is the loss arising on the sale of a long term / capital asset.

Capital receipt: Capital receipt is the amount received by a business either on the sale or disposal of a long-term asset or which results in an inflow of capital or borrowings for the business. Eg, Addition to capital, Loan taken from bank, Sale of Building.

Capital Redemption Reserve: Capital redemption reserve is a type of capital reserve created through transfer of divisible profits & can be utilized only for issue of bonus securities.

Capital Reserve: Capital reserve indicates the accumulated capital profits of a company & is shown under Reserves & Surplus in the balance sheet of a Company.

Capital work in progress: Capital work in progress indicates cost of fixed assets which a Company has acquired or is in the process of acquiring & which have not been put to use.

Cash Credit Account: A cash credit account is a type of bank account through which a bank allows payments in excess of the available bank balance, up to a certain specified limit resulting in a negative or credit bank balance.

Cash Flow Statement: Cash flow statement is a financial statement which shows the aggregate cash inflows, cash outflows & changes in cash & cash equivalents. It is divided into three sections, namely a) cash flow from operating activities, b) cash flow from investing activities & c) cash flow from financing activities. The format of the cash flow statement is defined as per Accounting Standard 3.

Common-Size Statement: Common size statement is a statement in which each item of a profit & loss statement is expressed as a percentage of a sales & each item in a balance sheet is expressed as a percentage of the balance sheet total or comparative or analytical use.

Consignee: Consignee is a person who acts as an agent on behalf of the consignor & is responsible for selling goods on his behalf.

Consignment: Consignment is a process of sending of goods from the principal (consignor) to the agent (consignee) for sale.

Consignor: Consignor is a person who owns & sends goods to his agent for sale.

Contingent Liability: A contingent liability is a liability that may, or may not arise depending upon the outcome of an uncertain event. Contingent liability is disclosed as a note to the financial statements describing the nature of the liability & the estimated amount likely to be payable. Eg. An on-going court case, A discounted bill of exchange

Contract Costing: Contract costing is a method of cost accounting used in construction contracts. Accounting for construction contracts is defined in Accounting Standard 7.

Contractee: Contractee is the party for whom a construction contract is being executed. The contractee is in the nature of a debtor or a customer for the contractor.

Contractor: Contractor is a party who executes a construction contract.

Conversion: Conversion refers to changing a nature of an entity into a different entity. Eg. A partnership firm can be converted into a private limited company.

Cost Accounting: Cost accounting is a form of accounting which measures & records the cost incurred for a business activity.

Cost of goods sold: Cost of goods sold indicates cost of the goods sold by a business. This is computed as: Opening Stock + Purchase - Purchase Returns - Closing Stock

Creditor: Creditor is a party to whom amount is payable by the business for the goods or services purchased from it.

Current Assets: Current assets are assets which are expected to be realised by a company within one year or within a normal operating cycle.

Current Liabilities: Current liabilities are liabilities which are payable by a company within one year or within a normal operating cycle.

Current Ratio: Current ratio is the ratio of the current assets to the current liabilities. It measures the ability of a business to pay its short-term obligations. A current ratio of 2:1 or greater is considered to be desirable for a business.

Current Tax: Current tax indicates the provision made for income tax by a company for a financial year and is disclosed in its Profit & Loss statement.

Custom Duty: Customs duty is an indirect tax paid on import of goods into the country.

Debentures: Debentures are a type of security issued by a company & are in the form of borrowings made by the company.

Debtor: Debtor is a party from whom amount is receivable by the business for the goods or services sold / supplied to it.

Debt Equity Ratio: Debt Equity ratio measures the ratio of the Borrowed Funds (Secured + Unsecured) to the Shareholders' Funds (Share capital + Reserves & Surplus) of a Company. This indicates how much is a company dependent on borrowed funds as compared to its own funds. A Debt Equity Ratio of 2:1 or lesser is considered to be ideal for a company.

Debt service coverage ratio: Debt service coverage ratio (DSCR) measures firm's available cash flow to pay current debt obligations. The DSCR shows whether a company has enough income to pay its debts & interest. DSCR can be computed by the following formula:
(Profit after tax + Depreciation + Interest on Loan) / (Interest on loan + Loan repayment during the year).

Deferred Tax: Deferred Tax indicates the tax that has been deferred to a different time period other than the current accounting period due to 'timing differences' arising on the computation of taxable profit as compared with the accounting profit. Such timing differences may result in a 'Deferred Tax Asset' or a 'Deferred Tax Liability'.

Del-credere commission: Del-credere commission is an additional commission paid by the consignor to the consignee for bearing the additional responsibility of recovering the dues from the debtors and for bearing the loss that may arise on account of bad debts.

De-merger: The splitting up of a Company into more than one companies based upon different business segments, products or areas of operation is called a De-merger.

Departmental accounts: Departmental Accounts involves determining the financial performance of each department, division or product of a company by preparing a separate income statement for each department, division or product. This is done by splitting up and allocating the total income & expenditure of the business and allocating it in an appropriate manner to each department, division or product. This is also known as Segment Reporting.

Depreciation: Depreciation indicates the reduction in the value of an asset (tangible or intangible) due to passage of time or use.

Direct Taxes: Direct taxes are taxes which are borne by the persons on whom they are levied. In other words, these are taxes whose incidence and impact are borne by the same person. Eg. Income Tax.

Disclaimer of opinion: A Disclaimer of Opinion is an audit report issued by an auditor when the auditor does not have sufficient data or financial information as to form an opinion about the financial statements of an auditee.

Dissolution: Dissolution refers to closure or winding up of the business of a partnership firm or a LLP. When a dissolution occurs, all liabilities of the firm are paid out or are taken over by the partners and all assets are realised or sold or are taken over by the partners.

Distribution Expenses: Distribution expenses are expenses incurred for transporting, storing, facilitating or ensuring that goods reach the place of the customers from the place of their manufacture. Eg. Delivery expenses, godown expenses.

Dividend: Dividend is the distribution of the earnings of a Company to its shareholders.

Earnings per share (EPS): Earnings per share is calculated by dividing the profit available to the equity shareholders by the weighted number of equity shares. EPS indicates the amount of profit earned by the company per equity share. Computation of EPS is defined as per Accounting Standard 20.

Earnings before interest, depreciation, tax & amortization (EBIDTA): The acronym EBIDTA stands for earnings before interest, taxes, depreciation, and amortization. EBIDTA measures a company's profitability from operations.

Earnings or net profit before taxes (EBIT): EBIT indicates the net profit earned by a business before payment of interest and income tax.

Earnings or net profit before taxes (EBT/NPBT): EBIT or NPBT indicates the net profit earned by a business before payment of income tax.

Employee Stock Options Plan (ESOP): The term employee stock option plan (ESOP) refers to a type of compensation granted by companies to their employees and executives. ESOPs give the employee the right to buy the company's shares at a specified price within a specified time period.

Endorsement: Endorsement involves transfer of a document, or the rights in a document from one person to another. Such document could be a negotiable instrument like a Bill of Exchange or Bearer Cheque. It could also be a transport document indicating delivery of goods like a Bill of Lading or a Lorry Receipt.

Equated monthly instalment (EMI): EMI indicates the monthly (or periodical) instalment that is paid as part of repayment of a loan. An EMI will consist of two components; Principal and Interest.

Equity: Equity indicates the ownership of the shareholders in a company, represented through shares. It also represents the amount of money that would be returned to a company's shareholders if all of the assets were liquidated and all of the company's debt was paid off in the case of liquidation.

Finished goods: Finished goods are the goods manufactured by an enterprise by processing raw materials through a manufacturing process.

First in first out (FIFO): FIFO is a method of valuation of inventory (stock) where it is assumed that the goods which were purchased first are sold / consumed first. Due to this calculation, the stock at the end of the year represents the latest purchase quantity and price.

Fixed Capital: Fixed Capital represents the initial capital brought in by a partner at the time of formation of the firm or admission of partner. Any further change in the capital (due to drawings, net profit or any other adjustment) is made through the Current Account of the partner.

Fluctuating Capital: Fluctuating Capital is a system where all adjustments to a partner's capital account (due to drawings, net profit or any other adjustment) is made through the capital account only. In this system, no current account is maintained.

Fixed cost: Fixed cost is a cost which remains constant irrespective of the change in the level of output. As the level of the output increases, the total fixed cost remains constant, but the fixed cost per unit decreases.

Good & Services Tax (GST): Goods & Services Tax is an indirect tax levied on the supply of goods and service within India. This tax has been introduced from 1st July 2017.

Goodwill: Goodwill is an intangible asset associated with the purchase of one company by another. It represents the excess of the consideration paid for the company over the value of the net assets of that company.

Gross Profit: Gross profit is the profit a company makes after deducting the direct costs associated with making its products, or providing its services. Gross profit will appear on a company's income statement and can be calculated by subtracting the cost of goods sold (COGS) from the sales.

Gross Profit Ratio: Gross Profit ratio indicates the ratio of the gross profit to the sales. It is calculated as percentage of gross profit to the net sales. ie. (Gross Profit / Net Sales) x 100.

Hire Purchase: Hire purchase is an arrangement for buying expensive consumer goods, where the buyer makes an initial down payment and pays the balance plus interest in instalments. The seller continues to remain the legal owner of the goods. The ownership of the goods is transferred to the buyer on the payment of the last instalment.

Hire vendor: Hire vendor is a person who sells goods on hire purchase system.

Hypothecation: Hypothecation occurs when an enterprise pledges an asset as security against a loan. The lender can seize the asset and recover the outstanding loan due if the enterprise fails to repay the loan.

International Financial Reporting Standards (IFRS): IFRS are a set of accounting standards, issued by the International Accounting Standards Board (IASB), for the financial statements of public companies to make them consistent, transparent, and easily comparable around the world. India has also issued accounting standards called IndAS, applicable to large companies, which are based on IFRS.

Impairment: Impairment is the permanent reduction in the value of a tangible or intangible asset.

Income received in advance: Income received in advance implies receipt of money against an income which has not become due or receivable as on date. Such receipt is treated as a liability of the business. Eg. Rent receivable for April has been received in March.

Income Tax: Income tax is a direct tax levied on persons on income arising in India as per the Income Tax Act, 1961.

Indirect Tax: An indirect tax is collected by one entity in the supply chain (usually a producer or retailer) and paid to the government, but it is passed on to the consumer as part of the purchase price of a good or service. The consumer is ultimately paying the tax by paying more for the product. Eg. GST, Customs Duty.

Initial Public Offering (IPO): An Initial Public Offering refers to an offer by a company to the public to purchase a specified number of shares in the company. An IPO is a method of raising capital by the company.

Instalment transaction: Instalment system is an arrangement for buying expensive consumer goods, where the buyer makes an initial down payment and pays the balance plus interest in instalments. The ownership of the goods is transferred to the buyer on the payment of the first instalment.

Insurance claim: An insurance claim is a compensation paid by the insurance company to an insured party for the loss suffered by the party to its assets due to an unforeseen event.

Intangible Asset: An intangible asset is an asset that is not physical in nature. They derive their value from certain internal & external factors. Goodwill, brand recognition, website, patents, trademarks and copyrights are examples of intangible assets.

Interest: Interest is the price paid for borrowing money.

Intrinsic Value: Intrinsic value refers to the valuation of the net assets of a company. This valuation may be done by considering the book value or the fair value of the assets & liabilities of the company.

Inventory: The term inventory refers to the raw materials used in production or rendering of services as well as the finished goods which are available for sale.

Investments: An investment is an asset acquired with the goal of generating income or appreciation of wealth. Eg. Investment could be in shares, securities, immovable property, jewellery, paintings, business ventures.

Limited Liability Partnership (LLP): A Limited Liability Partnership is a form of organization, in the nature of a partnership with the partners having limited liability, as formed under the Limited Liability Partnership Act, 2008.

Liquidation: Liquidation is the process of bringing a business to an end and distributing its assets to claimants. It is an event that usually occurs when a company is insolvent. As company operations end, the assets are sold and the money available is used to pay creditors and shareholders, based on the priority of their claims.

Manufacturing account: Manufacturing account is a Revenue account in which all manufacturing expenses and incomes are recorded. The balancing amount in the manufacturing account is the 'Cost of Production' which is transferred to the Trading Account.

Manufacturing expense: Any expense incurred for the purpose of, or related to the manufacturing of a product is called as a manufacturing expense. Eg. Raw material consumed, factory wages, depreciation of machinery.

Marginal cost: Marginal cost is the additional cost that is incurred when the level of output is increased by 1 unit. Marginal cost is the variable cost incurred for manufacturing 1 unit.

Marginal costing: Marginal costing is a technique of costing used for cost analysis and forecasting by classifying all costs into their fixed and variable components.

Memorandum / Proforma account: A Memorandum or Proforma account is a rough working prepared outside the books of accounts for a specific purpose. This is not a part of the books of accounts or double entry system of accounting.

Merger: A merger is an agreement by which two or more existing companies combine into one new company. The merging companies will cease to exist and new merged company will be incorporated to take over the business, assets & liabilities of the merging companies.

Mutual funds: A mutual fund is a type of financial vehicle made up of a pool of money collected from many investors to invest in securities like shares, bonds and other assets. Mutual funds are operated by professional fund managers, who allocate the fund's assets and attempt to produce capital gains or income for the fund's investors. A mutual fund's portfolio is structured and maintained to match the investment objectives stated in its prospectus.

Net Purchases: Net Purchase is the Purchase disclosed by an enterprise after deducting the Purchase returns. Net Purchase = Gross Purchase – Purchase Returns
Net Purchase could also mean the value of the Purchase after deducting GST or other taxes thereon. Net Purchase = Gross Purchase - GST

Net Profit: Net Profit is the net income earned by a business. It is calculated by reducing all expenses from all the incomes earned by a business.

Net profit or earnings after tax (NPAT/EAT): NPAT or EAT indicates the net profit earned by a business after payment / provision of income tax.

Net Profit Ratio: Net Profit ratio indicates the ratio of the Net profit to the sales. It is calculated as percentage of Net profit to the net sales. ie. (Net Profit / Net Sales) x 100.

Net Sales: Net Sales is the sales disclosed by an enterprise after deducting the sales returns.
Net Sales = Gross Sales – Sales Returns
Net Sales could also mean the value of the sales after deducting GST or other taxes thereon.
Net Sales = Gross Sales - GST

Non-cash item: A non-cash item refers to an expense listed in an income statement that does not involve a cash payment. Eg. Depreciation.

Non-current Asset: Non-current assets are a company's long-term assets which will not be realized within the accounting year. They are typically highly illiquid, meaning these assets cannot be easily converted into cash. Eg. Fixed Assets, Long term investments.

Non-current Liability: Non-current liabilities, also called long-term liabilities or long-term debts, are long-term financial obligations listed on a company's balance sheet. These liabilities will become due beyond twelve months in the future. Eg. Long term bank loan.

Non-operating expense: Non-operating expenses are those expenses which are not directly related to the core business of the company. Eg. Loss on sale of asset.

Non-operating income: Non-operating incomes are those incomes which are not related to the core business of the company. Eg. Interest on investments, profit on sale of assets.

Normal loss: Normal loss is the loss of quantity / weight which is expected in a manufacturing process. This loss occurs due to the nature of the manufacturing activity carried out and is unavoidable in nature. Normal loss by itself does not have any monetary value. It is recorded at the scrap value, if any.

Operating expense: Operating expenses are those expenses which are directly related to the business activity. These may be broadly divided into sub-groups like manufacturing, administrative, finance, selling or distribution expenses.

Operating income: Operating income is the income earned from the core activity of the business. Eg. Sales.

Outstanding expense: Outstanding expense is the expense which has accrued or become due for an accounting period, but which has not been paid till date. It is treated as a liability for the business.

Partnership: A partnership is a form of organization in which 2 or more persons come together to conduct business for the benefit of all partners, and as defined and governed by The Partnership Act, 1932.

Piecemeal distribution: A piecemeal distribution is a system where the liabilities of a partnership firm are paid off in parts (piecemeal) as and when the assets are disposed off upon the dissolution of the firm.

Preference Shares: Preference shares are a type of shares issued by a Company which get preference (before equity shares) for payment of dividend and for repayment / redemption upon the liquidation of a Company. The rate of dividend payable on the preference shares is also fixed.

Prepaid expense: Prepaid expense is the expense which has been paid but has not accrued or become due for an accounting period. This expense, although it has been paid, pertains to a future period. It is treated as an asset in the Balance Sheet of a business enterprise.

Profit & Loss Statement: Profit & Loss Statement is a financial statement which summarizes the incomes and expenses that have accrued to the business enterprise for a specified period (Eg. For a financial year or for 3 months). This statement indicates the profit or loss incurred by the business.

Profit prior to incorporation: In a case where an existing non-corporate entity having a running business is converted into a Company, the profit earned by the entity till the date of the incorporation of the Company is treated as a profit prior to incorporation. This profit, being earned by the Company before its formation, is not treated as a business profit and is transferred to a Capital Reserve Account.

Proforma invoice: Proforma Invoice is an unofficial document prepared by a business indicating the probable value of the goods to be sold or delivered. This document is not recorded in the books of accounts.

Property, Plant & Equipment: Property, Plant & Equipment is a term used to refer to Tangible Fixed Assets. Eg. Land & Building, Plant & Machinery, Computers etc.

Proprietor's funds: Proprietor’s funds refer to the funds which belong to the owners of a business enterprise. Eg, For a proprietorship or partnership concern, it could refer to the Capital and Current Accounts of the proprietor or partner. In case of a Company, it refers to the aggregate of the Share Capital and Reserves & Surplus of the Company.

Provision: A provision refers to accounting for an expense which has been accrued, but the exact amount of which is not known. Hence, an enterprise records an approximate amount as an expense based on certain estimations. Eg. If the electricity bill of March is not received, a Company might estimate the amount of electricity cost based on past data and make a provision for that amount. When the actual bill is received, it will be recorded and the provision made will be reversed in the accounts.

Quick Assets: Assets which can be converted into (sold / disposed) cash or cash equivalents in a short period of time are called Quick Assets. Eg. Debtors, Short-term investments.

Quick Liabilities: Liabilities which have to repaid in a short period of time are called Quick Liabilities. Eg. Payment to Creditors, payment of Bills Payable, Outstanding Expenses.

Quick Ratio: Quick ratio is the ratio of the Quick Assets to the Quick Liabilities. It indicates the liquidity position of a business. A higher quick ratio indicates that a business is able to convert its assets into cash very quickly and is able to pay its short-term liabilities comfortably. A ratio of 1:1 or greater is considered as an acceptable quick ratio.

Raw materials: Raw Materials are the basic materials used for manufacturing a product.

Redemption: Redemption refers to the process of repayment of securities like Debentures or Preference Shares. This involves refunding of the money invested by the security-holders and cancellation of the said securities.

Reserves & Surplus: Reserves & Surplus is a grouping in the Balance Sheet which aggregates all the various profits, gains & reserves (both capital and revenue) earned by the enterprise.

Retention money: In a construction contract, retention money refers to the money held back by the Contractee (customer) from the Contractor (supplier). This amount is paid by the contractee to the contractor only after a certain period of time and when the contractee is assured of the quality of the work done by the contractor.

Revenue expenditure: Expenditure incurred by an enterprise in the normal course of the business and which gives short term benefits to a business is called Revenue Expenditure. Such expenditure is shown on the debit side of the Revenue Statement. Eg. Salary paid, Rent paid, Purchase of Materials etc.

Revenue Profit / Loss: Profit / Loss earned by an enterprise in the normal course of business is called Revenue Profit / Revenue Loss. Eg. Profit on sale of shares by a broker, Loss on destruction of stock.

Revenue receipt: Amount received or income earned by an enterprise in the normal course of a business is known as a Revenue Receipt. Such receipt might be recurring in nature. It is shown on the credit side of the Revenue Statements. Eg. Sale of goods, discount received, interest received on investments etc.

Revenue Statement: Revenue Statement is a general term used to refer to a statement or an account that shows the income and expenditure of a business. Eg. Manufacturing A/c, Trading A/c, Profit & Loss A/c, Income & Expenditure A/c.

Royalty: Royalty is a payment made by a user of a particular asset to the owner of the asset for its use. Such asset could be a copyright or a patent. Eg. A publisher selling a book will pay royalty to the Author of the book. A music company or TV channel playing a song will pay a royalty to the singer.

Secured loan: A loan or borrowing against which certain assets have been offered as a security is called Secured Loan. If the borrower defaults on the repayment of the loan, the lender has the right to take over the secured assets and recover the amount of the loan by disposing those assets.

Selling expense: Selling expenses are expenses incurred for facilitating or promoting the sale of goods or services. Eg. Advertising expenses, Sales Promotion expenses, Discount allowed.

Share application: Share application is a process where a Company making a fresh issue of shares invites bids or applications from the public for subscription to these shares. An applicant may be required to pay a certain amount on application.

Share allotment: Share allotment is a process where a Company allots shares to the persons who have applied for the shares. A company will also collect a certain amount towards the paid-up value of the shares.

Share calls: A share call is a process by which a Company asks the shareholders to pay a certain amount to make a partly paid-up share fully paid up.

Share forfeiture: In case a shareholder does not pay the amount called up on a partly paid-up share, the company can cancel the shares allotted to that shareholder and forfeit (not refund) the amount which has already been collected from that shareholder on application or allotment. The amount so forfeited is shown separately in a Share Forfeiture Account.

Specific identification method: Specific Identification method is a method of valuation of inventory where the cost of each item of inventory is separately identified and considered. Eg. In a saree store if there are 100 sarees, the cost of each saree being different will be identified separately for valuing the stock.

Standard cost: Standard cost is a pre-determined cost based upon engineering specifications and representing efficiency at specified level of production.

Standard costing: Standard costing is a technique of costing used for measuring the efficiency and variance in costs by comparing the standard costs with the actual costs incurred.

Statement of affairs: Statement of Affairs is a statement showing the list of assets & liabilities as on a particular date. This statement is not a part of the books of accounts. It can be said to be like a rough balance sheet maintained for a small business not maintaining proper books of accounts.

Straight line method: Straight line method is a method of computing depreciation. The depreciation is calculated on the original cost of the asset.

Tangible assets: Assets which have a physical form are called Tangible Assets. Eg. Machinery, Furniture.

Tax invoice: Tax invoice is a document issued on the supply of goods or services indicating the nature of the goods or service supplied, the quantity supplied, the sale price and the GST levied on the supply.

TDS payable: Tax Deducted at Source (TDS) payable is the amount of TDS which an enterprise has deducted on the payment made by it to another party. This amount is then payable to the Government and is in the nature of a current liability for the enterprise.

TDS receivable: TDS receivable is the amount of income tax (TDS) deducted by another party on the payment made to us. This represents the amount of income tax paid on our behalf by the other party and is treated as a current asset.

Trading Account: Trading Account is a part of Final Accounts. It shows the direct incomes and expenses incurred by a business through trading activity. The balancing figure in the trading account is Gross Profit or Gross Loss.

Underwriting: Underwriting is an agreement where an underwriter agrees to subscribe to or purchase securities offered in an IPO (initial public offer) in case of under-subscription of the issue by the public.

Unsecured loans: Loans taken against which no security has been offered are called Unsecured Loans. In case of a default, the lenders have no mechanism to recover the outstanding dues. The lenders can only opt for legal action to recover the dues.

Valuation: Valuation is an analytical process for determining the value of an asset or security. Valuation process involves use of various techniques to determine the value.

Variable cost: Variable cost is a cost which varies with the change in output. If the output increases, the cost will increase proportionately and vice versa.

Weighted average cost: Weighted average cost is the average cost determined after giving appropriate weightage to the various variables involved. Putting it simply, it can be computed by dividing the total cost by the total quantity.

Work in progress: Work in Progress indicates the cost of work done / cost involved in manufacture of a product where the product has remained incomplete as on the reporting date. The cost of Work in Progress is treated as an inventory.

Working Capital: Working Capital represents the amount of funds required to ensure the smooth running of the routine business activities. Technically it is represented as the difference between the Current Assets & the Current Liabilities.

Written down value method: Written down value method is a method of computing depreciation. The depreciation is calculated on the book value or written down value of the asset. Since the book value of an asset reduces from year to year, the corresponding amount of depreciation on an asset also goes on reducing over a period of time.