KEY TERMS

Business Entity Concept
According to this concept, the business and business person/owner are separate entities. Accounts are maintained for the business, as distinguished from the persons who are associated with the business.

Accrual Concept
This concept affects the recognition of revenue and expenses of a business entity. As per this concept, both credit and cash transaction should be recorded in the books of account. An income should be recorded even if that it has not been received.

Cost Concept
A fundamental concept of accounting is that an asset is generally recorded in the accounting books at the price paid to acquire it -that is at its cost.

Matching Concept
According to this concept, the income of particular period should be compared with or matched with the corresponding cost/expenses incurred during the period to determine the profit or loss for the period.

Conservative Concept
As per this concept, the business records the future, anticipated expenses and losses. However, the anticipated incomes are not recorded. Generally, the managers tend to show a favourable report of the entity's performance.

Accounting Period Principle
It assumes that an organisation's activity can be reported for a particular period. The period can be monthly, quarterly, half-yearly, and annually. Most organisations use a year as their primary accounting period. Reports covering a one –year period are known as annual financial statements.

Accounting Equation
Accounting equation is the basic tool for understanding and analysing the financial transactions. In fact, every transaction, irrespective of its size, nature, can be explained with the help of the accounting equation.

Payments:
Payment is the outflow of money. However, every outflow of money is not an expense. Payment may also result in acquisition of assets and reduction of liability.

Expenses
Expenses are those whose benefits expire on one accounting period. Expenses may be for cash or on credit. Expenses are incurred with for earning an income.

Revenue Expense
Those payments the benefits from which expire in one accounting period.

Deferred Revenue Expenses
Deferred revenue expenses are those expenses whose benefits accrue for more than one year (for 2-5 years).

Capital Expenditure
Payment results in acquiring an asset. Such assets will remain with the business for a longer period and enable the company to generate incomes.

Bad debts
Bad debt is a loss due to the non-recovery of credit sales, which arises due to the insolvency of the customer (debtor).

Depreciation
Depreciation can be explained in one of the following ways: Loss due to the wear and tear of fixed asset; cost apportioned over the life of the fixed asset; provision for replacement of fixed asset; or charge for using the fixed asset.

Cash Dividend:
Dividend is the part of the profit distributed among the shareholders. Cash dividend is profit distributed in the form of cash.

Stock Dividend/Bonus Share
Dividend can be distributed in the form of shares. Such declaration of dividend shares does not involve any outflow of cash.

Rights Issue
Shares issued to the existing share holders at the time of subsequent issue of shares are called Right shares. Unlike the issue of bonus share, issue of right shares involves cash flows.

Owners' Fund:
Capital and accumulated profit/loss is called owners' fund. Owners' fund is also known as net worth or equity.

Capital Employed:
Capital employed is the sum of owners' fund and long-term borrowing.