Financial Accounting and Management

Unit 2

Basic Accounting Terminologies

Account: An account is a record used to properly classify the activity recorded in the General Ledger.

Accounting: Accounting is recording and reporting of financial transactions, including the origination of the transaction, its recognition, processing, and summarization in the financial statements.

Accrual Basis: Accrual basis is a method of accounting that recognizes revenue when earned, rather than when collected and expenses when incurred rather than when paid. The organisation uses the accrual basis for its accounting.

Asset: An asset is anything of use to future operations of business and belonging of an enterprise. An asset is what the organisation owns. For example- land, property, buildings, equipment, cash in bank accounts, other investments, and accounts receivable.

Credit: A credit is an entry on the right side of a double-entry accounting system that represents the reduction of an asset or expense or the addition to a liability or revenue.

Debit: A debit is an entry on the left side of a double-entry accounting system that represents the addition of an asset or expense or the reduction to a liability or revenue.

Double-Entry Accounting: Double-entry accounting is a method of recording financial transactions in which each transaction is entered in two or more accounts and involves two-way, self-balancing posting. Total debits must equal total credits. The organisation uses this method of accounting.

Expense/Costs: It is the expenditure incurred by enterprise to earn revenue. An expense is funds paid by the organisation. For example- pay checks to employees, reimbursements to employees, payments to vendors for goods or services.

Equity: It refers to total claims against enterprise. It is further divides into Owner's Claim (Capital) and Outside’s Claim (Liability).

GAAP: GAAP stands for Generally Accepted Accounting Principles which are conventions, rules, and procedures necessary to define accepted accounting practice at a particular time. The highest levels of such principles are set by FASB.

FASB: FASB stands for Financial Accounting Standards Board, which is an independent, private, nongovernmental authority for the establishment of accounting principles in the United States.

General Ledger: The general ledger is the collection of all assets, liability, fund balance (net assets), revenue and expense accounts.

Journal Entry: A journal entry is a group of debit and credit transactions that are posted to the general ledger. All journal entries must net to zero so debits must equal credits.

Liability: A liability is what the organisation owes. For example-loans, taxes, payables, long term debt from a bond issue, funds held by the organisation for a third party such as a employee group.

Subsidiary Ledger: A subsidiary ledger is a group of accounts containing the detail of debit and credit entries. For example, detail information contained in Accounts Payable.

Revenue: Revenue is funds collected by the organisation; it can also be called income. It is monetary value of products/services sold to customers during the period. For example-tuition, fees, rentals, income from investment.

Cash Book: Cash book is used to record all cash and bank related transactions. Some records only the cash related transactions while other use the cash book for both type of transactions. A cash book which is used to record both cash and bank transactions is referred to as Two-column Cash Book. Some accountants use cash book as Cash Book cum Journal. One column of the cash book on both the pages is used for cash transactions and other column for recording all other entries including bank transactions.

Journal: The journal is used for recording all transactions which cannot be recorded in the Cash Book. Sometimes it is supported by some subsidiary books e.g., Purchase Book, Sales Register, etc.

General Ledger: The General Ledger contains all the accounts of an enterprise. Since the final information pertaining to the financial position of a business emerges only from accounts and, therefore, the Ledger is also called the Principal Book.

Trial Balance: In accounts every amount that is placed on the debit side of an account must have a corresponding entry on the credit side of some other account. This is the technical aspect of the principle of double entry system. This being the case, it is but natural that the total of all debit balances should agree with the total of all credit balances. In fact, all businesses periodically tabulate the debit and credit balances separately in a statement to see whether the total of debit balances agrees with the total of credit balances or not. Such a statement is known as Trial Balance. The accountant heaves a sigh of relief when the Trial Balance drawn by him tallies because it is a good proof that the ledger has been correctly written up. However, it is not a conclusive proof of accuracy.

Profit and Loss Account: This is prepared to see the loss incurred or profit earned by an enterprise within specific period. This is usually made on a yearly basis.

Balance Sheet: The Balance Sheet is a statement summarizing the financial position of a business on a given date. Its summaries on the right-hand side the assets of the business and on the left-hand side the liabilities of the business including what the business owes to the proprietor viz., the capital invested by him. The total of all the assets must be equal to the total of all the liabilities. So, an accountant has to write the cash book and journal first, and then post all those entries written in cash book and journal to general ledger. Then he prepares the Trial Balance – the most difficult job. After this he prepares the Profit & Loss Account and Balance Sheet. He also has to reconcile the banks, prepares other report like sale register, inventory position, list of debtors and creditors, purchase and sales returns etc. Doing all this work manually not only requires lot of patience but it is a time consuming and very much laborious job.

Capital and Revenue Items

Capital Expenditure

The expenditure incurred for acquiring a fixed asset or which results in increasing the earning capacity of the business is known as Capital Expenditure.

The benefits of capital expenditures are generally availed in several accounting years. Following are some of the examples of Capital Expenditure:

1. Expenditure incurred for the acquisition of a fixed asset
Example: Building, furniture, machinery etc.

2. Expenditure incurred for the inward carriage or erection of a fixed asset
Example: (a) Carriage paid in connection with the purchase of fixed asset.
(b) Wages paid to labourers in connection with the installation of machinery.

These expenses form part of the cost of the fixed asset.

3. Expenditure incurred for extension or improvement of an existing fixed asset
Example: Money spent in connection with increasing the seating capacity of a cinema hall or constructing an additional room.

4. Expenditure incurred for the major repairs of an old asset
Example: Repairs for reconditioning a machinery.

5. Expenditure incurred for the replacement of an old asset with a new asset.
Example: Replacing a hand-driven machine by automatic machine.

Revenue Expenditure

An expenditure incurred in the course of regular business transactions of a concern is availed during the same accounting year is known as Revenue Expenditure. Following are some of the examples, of Revenue Expenditure.

1. Expenditure incurred on the purchase of raw materials.

2. Expenditure incurred in the day-do-day running of business,
Example: Wages, salaries, rent, rates and taxes, office expenses, interest, discount, etc.

3. Expenditure incurred for the upkeep of an asset
Example: Repairs, maintenance charges, etc.

4. Expenditure incurred for the purchase of goods meant for sale
Example: Purchases, carriage inwards, import duty, octroi, etc.

The above examples are not exhaustive and are not universally accepted. Whether an expenditure is capital expenditure or revenue expenditure depends upon its purpose and nature of the business.

Deferred Revenue Expenditure

There are certain revenue expenditures that are incurred during one accounting year but are applicable wholly or in part in future periods such as heavy expenditure on advertisement for introducing a new product in the market or for exploring new markets for the product. These

expenditures appear to be revenue expenditure. But it is not so because the benefit from this is likely to the enjoyed over a number of years. Such expenditure whose benefit is enjoyed not in one year but over a number of years is known as deferred revenue expenditure.

Example:

1. Heavy initial expenditure incurred on Advertisement for introducing a product in the market.
2. Expenditure incurred in shifting business to more convenient premises.
3. Expenditure incurred on research and development.

Capital Receipts

The receipts which do not arise out of normal course of business are known as Capital Receipts.

Example:

1. Receipts from sale of fixed assets.
2. Additional capital introduced by the Proprietor.
3. Loans raised.

Revenue Receipts

The receipts which arise out of normal course of a business are known as Revenue Receipts.

Example:

1. Income from sale of goods
2. Rent received form letting out the business property.
3. Dividend received from shares.
4. Interest received from investment.

Meaning of Double Entry Accounting System

Double entry system is a system in which every transaction affects at least two accounts. Under this system every debit has a credit. Every transaction, which is in money or measured in terms of money's worth, is recorded. These transactions, as it is clear from its very name are recorded in two accounts. These accounts are of individuals or Institutions who either receive some benefit or sacrifice something. If they receive then debit the benefit if it is a sacrifice then credit the same.

Cash and Mercantile System of Double Entry System

There are two systems of double entry bookkeeping namely cash system and mercantile system. In case of cash system, transactions are recorded only if cash is received or paid. Government accounting is done basing on this system. On the other hand, mercantile system is one where both cash and credit transactions are recorded. Besides, outstanding expenses or incomes also find place in the mercantile system. It is fair enough to adopt mercantile system because when an event takes place, it gets recorded irrespective of its immediate impact on the cash position. In case of credit transactions, cash does not flow immediately but it takes place at a future point of time. Transactions like sales or purchases on credit, salary payable, rent receivable, interest accrued but not received, depreciation provided etc., influence on the financial position of the business unit and therefore they should be recorded. Mercantile system

facilitates this. Hence double entry recognizes the fact that every transaction, whether cash or credit, influences at least two accounts – one representing debit aspect and another credit aspect.

Application of Computer in Accounting

1. To Keep Accounting Record of Big Company is Possible
2. Separate Payroll Accounting is Possible
3. Automation of All Financial Accounts
4. Graphic Presentation of Accounting Results
5. Updated Fastly
6. Updated Fastly

Journal

Journal is a book of accounts in which all day-to-day business transactions are recorded in a chronological order i.e., in the order of their occurrence. Transactions when recorded in a Journal are known as entries. It is the book in which transactions are recorded for the first time. Journal is also known as 'Book of Original Record' or 'Book of Primary Entry'.

The accounting process does not stop here. The transactions are recorded in number of books in chronological order. Such recording of business transactions serves little purpose of accounting. Items of same title in different books of accounts need to be brought at one place under one head called an account. There are numerous account titles of items/persons or accounts. All the accounts, if brought in one account book, will be more informative and useful. The account book so maintained is called Ledger.

'Journal' word is derived from French word '*Jour*' which means a daybook. Journal is a primary book of original entries for accounting data. In the Journal the business transactions are recorded chronologically that is called Journalising. Thus, the accounting data are recorded first time in this book. In the words of Carter, "A Journal, as originally used, is a book of primary entry in which transactions are copied in the order of date from a memorandum or waste book. The entries are then copied and classified into debts and credits, so far to facilitate their being correctly posted afterwards in the ledger". The proforma of a Journal is given here under:

Pro forma of a Journal

Date	Particulars	L.F.	Amount Dr. (₹)	Amount Cr. (₹)

As per the above pro forma of Journal the first column is kept for date means date of transaction is recorded, second wide column for particulars of business transactions in which the related accounts are showed along with their narrations. Third column is for ledger folio number where the journal entry is posted in ledger. The fourth and fifth columns are kept for debit amount and credit amount.

What is meant by the journal entry?

It is an entry systematically recorded to the tune of golden rules of accounting in the journal book is known as journal entries.

Account

An account is a statement in which the date wise details regarding the business transactions as persons, companies, representatives, assets, liabilities, income and expenditures and profit & loss are given.

Accounts are classified into following three categories:

a) *Personal Account:* Here those accounts are included which are relating to persons, firms, companies, representatives, and organizations as Shyam Lal & Company's Account, etc.
b) *Real Account:* Accounts which are relating to the assets and properties of the business are counted under this heading. Assets can be real or intangible. Real assets are as land & buildings, plant & machinery, cash, and stock, etc. While intangible assets may be as goodwill, patents, and trademarks, etc.
c) *Nominal Account:* Accounts which are relating to the revenues, incomes, expenses, and losses of the business are called nominal accounts. For example, rent, commission, interest, dividend, etc.

Rules of Debiting and Crediting in Journal

In the Journal the business transactions of the financial nature are recorded on the basis of debit and credit. The accounts are debited and credited on the basis of following rules. These rules are based on the English classification of accounts.

1. ***Personal Account:*** If in a transaction, a person receives something in cash or goods, it is debited and if that person gives, that is credited. Debit account is denoted by 'Dr.' while credit account is denoted by 'Cr.' In brief, the rule of personal account is.

Receiver is debited (Dr.)

Giver is credited (Cr.)

2. ***Real Account:*** If in a transaction, the assets are coming into business, they are debited and if those are going outside from business, they are credited. Thus, these rules are as below:

'What comes in' is debited.

'What goes out' is credited.

3. ***Nominal Account:*** The rules of debiting and crediting of nominal account are – the expenses and losses of the business are debited, and the gains and profit of the business are credited. In brief the rules are:

Expenses and Losses are debited.

Incomes and Gains are credited.

At the time of Journalising of the transactions, when an account is debited, it is denoted by 'Dr.' and crediting of an account by 'To'. When a transaction is recorded first of all its two aspects (accounts) are identified, those may of the same group (same type of account) or different groups (different types of accounts). Then the rules of debiting and crediting are applied. On the completion of a page of the Journal it is totalled, and the balance is carried forward to the next page.

Ledger

Journal of a business is very useful, but it does not reply to the different queries as how much amount is due from debtors, how much is to be paid to creditors and what is the balance of a particular account etc. For the reply of all these queries the ledger is prepared from the Journal entries. Ledger is the set of accounts in which all types of account (personal, real, or nominal) are kept. There can be two forms of ledger:

a) Bound Ledger
b) Loose Leaf Ledger

A ledger in traditional way, is normally kept in the form of bound notebooks. In bigger business enterprises, it is not easy to maintain a large and variety of transaction in a single book. To overcome this difficulty, loose leaf shuts take the place of bound books.

Under loose leaf ledger, appropriate sheets are introduced. Additional pages may be added to any extent, completed account may be removed to reduced volume, any account may be rearranged so as to suit the needs of the enterprises. This mode of maintaining ledger in the form of loose sheets is called loose leaf ledger.

Posting

The process of transferring the entries from Journal to Ledger accounts is called posting. In other words, account wise selection of debit or credit items and recording them into the relevant side of the relevant account is called posting. The process of posting is done after a period as week, fortnight, or a month. For example, if rent as an expense is shown in the debit in Journal, this will be posted in the debit side of the Rent (Expenses) A/c in the Journal. The proforma of a Ledger account is given below:

Proforma of an Account
Name of Account………

Date	Particulars	L.F.	Amount (Dr.) (₹)	Date	Particulars	L.F.	Amount (Cr.) (₹)

In the above proforma of an account, there are two sides of an account. Left hand side is debit side and right-hand side is credit side. In both the sides, the first column is for date and second column for details, third column for the Journal folio number and in the last column the amount of the transaction is recorded.

Rules of Posting in Ledger Account

At the time of posting of transactions from Journal to ledger the following points/rules should be kept in mind:

1. In the debit side of a ledger account, the word 'To' is used while in the credit side word 'By' is used.
2. All those accounts are opened in the Ledger which are given in the Journal.
3. All the debit items of an account given in Journal are posted in the debit side of the respective account. And all the credit items of an account given in Journal are posted in the credit side of the respective account in ledger.
4. The name of the account, in which posting is being made, is not written. But the posting is done by the name of other account given in the opposite side of that entry in the Journal.
5. At the time of posting if the page is full and account is not complete, its total is carried to the next page and then remaining posting is done.

Balancing

There can be several transactions relating to a particular account in the different places in the Journal. Such transactions are collected and recorded in the concerned account. At the end of the accounting period, the businessman becomes interested to know the position of these accounts. The position of an account is determined by calculating the net balance of the account for which debit and credit sides of the account are totalled separately. If total of debit side is greater than the total of credit side, difference is written in the credit side of the account and that is carried to next year. And if the total of credit side is greater than the total of debit side, difference is written in debit side and carried to next year. Thus, totals of both the sides become equal and account is closed.

Balancing of Different types of Accounts

Assets: All asset accounts are balanced. These accounts always have a debit balance.

Liabilities: All Liability accounts are balanced. All these accounts have a credit balance.

Capital: This account is always balanced and usually has a credit balance.

Expense and Revenues: These Accounts are not balanced but are simply totalled up. The debit total of Expense/Loss will show the expense/Loss. In the same manner, credit total of Revenue/Income will show increase in income. At the time of preparing the Trial Balance, the totals of these are taken to the Trial Balance.

Trial Balance

Trial balance is a list in which all the balances of the accounts of Ledger are showed to test the arithmetical accuracy of the posting in ledger. It is prepared after the end of a particular period– year, half year or quarter. Trial balance prepares a base for the preparation of final accounts. After the completion of trial balance, the financial accounts - P&L Account and Balance Sheet are prepared to disclose the overall results of the business after a period. The proforma of a trial balance is given hereunder:

Proforma of Trial Balance

S. No.	Particulars	Amount Dr. (₹)	Amount Cr. (₹)

Generally, three columns are made in the trial balance. The first wide column is kept for the particulars of accounts and the two columns for debit amount and credit amount are made.

Objects and Functions of Trial Balance

The main objectives of preparing a trial balance are to check the arithmetical accuracy of all transactions. In every trial balance, the total of debit balances must agree with the total of credit balances. It is a proof of arithmetical accuracy of postings, but it is not conclusive evidence of correctness of the books of accounts. The other objects and functions of a trial balance are as under:

7.2 Methods of Preparation of Trial Balance

A trial balance is prepared by the following three methods:

1. Balance Method
2. Total Method
3. Balance and Total Method or Combined Method

Among the above methods the balance method is the most popular and statutory method to prepare the Trial Balance. Under this method the balances of all the accounts are recorded. If an account shows a debit balance in the ledger, this balance is recorded in the debit side of the trial balance and if it has a credit balance, in the credit side of it is written. If any account has no balance means its total of debit side is equal to the total of credit side, it is not recorded in the Trial Balance. After recording the balances of all accounts of the Ledger, the amounts of both the sides are totalled to check the arithmetical accuracy of the ledger. If the total of debit side agrees with the total of credit side, it proves that books are at least arithmetically correct. However, the trial balance is not the sole proof of accuracy of the books of Ledger.

Total Method instead of taking balance of each account, the total of both the side of each account is taken. Combined method is both the above explained method i.e., balance as well as total method are used. This method is not in use because of wastage of time and labour.

Preparation of Trial Balance with the Help of Balances

Following rules should be kept in mind while preparing a Trial Balance:

1. The balances of all the assets accounts and drawing accounts are recorded in the debit side of the Trial Balance.
2. The balances of all the liabilities and capital accounts are recorded in the credit side of the Trial Balance.
3. The balances of all expenses and losses of the business are showed in the debit side of the Trial Balance.
4. The balances of all incomes and gains are disclosed in the credit side of the Trial Balance.

5. The balances of sales and sale returns are disclosed in the credit side and debit side of Trial Balance respectively.
6. The balances of purchases and purchase returns are disclosed in the debit side and credit side of the Trial Balance respectively.

Final Accounts

Every organisation prepares its final accounts after a particular period to know its financial results and financial position. Final accounts mean profit and loss account and the balance sheet. Profit and loss account also contains one more account, known as trading account, and if the business is manufacturing any item or article, then Manufacturing account is also there. All these accounts are prepared only after preparing trial balance.

Objectives of Preparing Final Accounts

You already know that final accounts are prepared at the end of a particular time period. The final accounts play an important role for every kind of organisation. There are two main objectives of preparing final accounts: (1) to know the operational results i.e., final accounts are prepared to know the profit or loss during a particular period through the profit and loss account which is also known as income statement, and (2) to ascertain the financial position of the business on a particular date through the balance sheet, also known as position statement.

Preparation of Final Accounts

The profit and loss account and the balance sheet are, together popularly known as the final accounts. The profit and loss account are prepared to show the financial results of a business and the balance sheet is prepared to show the financial position. To calculate the accurate amount of profit or loss, it is a must that there should be a recognition of the revenues and expenditures. If there is a wrong recognition of expenses or revenues, results of the business will also be wrong. Thus, the distinction between the capital and revenue items is very important.

There are two types of expenses and two types of incomes which are classified as:

1. Revenue expenditure/Revenue receipts
2. Capital expenditure/Capital receipts.

Classification of Expenditures

Expenditures of a business are classified into following three categories:

1. ***Capital expenditure:*** If an expenditure is incurred in the business to get its benefit for a long period, such expenditure is called capital expenditure.

Example: Expenditure to acquire a fixed asset as purchase of plant and machinery, land and buildings and furniture, etc.

2. ***Revenue expenditure:*** When an expenditure is done for a short period (less than one year) and for the regular operation of business, it is termed as revenue expenditure. Its benefit is taken by the business in the current period only.

Example: Expenses incurred during the normal course of business – as salaries of the staff, fuel and electricity used for the running of machinery and cost of sales.

3. ***Deferred revenue expenditure:*** When revenue expenditure is done for the benefit of two or three years, it is termed as deferred revenue expenditure.

Example: cost of heavy campaign of advertisement, preliminary expenses, etc. The benefit of such type of expenditure is enjoyed by the company for a number of years.

Classification of Receipts

Receipts of a business are classified into following categories:

1. ***Capital receipts:*** Capital receipts include the sale of fixed assets, long-term investments, issue of share capital, debentures and loan raised. Capital receipts are different from the capital profits or loss. The entire amount from the sale of assets is called capital receipts and the difference of sale proceeds and cost of assets is capital profit or loss.

2. ***Revenue receipts:*** Receipts which are obtained during the normal course of business are called revenue receipts. In other words, the receipts which are not capital receipts are revenue receipts as sale of goods.

Example: goods worth 5,000 are sold at 6,000. Here, the entire sale of 6,000 will be revenue receipts and the revenue profit will be 1,000 only.

TRADING ACCOUNT

At the end of the year, as has been seen above, it is necessary to ascertain the net profit or the net loss. For this purpose, it is first necessary to know the gross profit or gross loss. Gross Profit is the difference between the selling price and the cost of the goods sold. For a trading firm, the cost of goods sold can be ascertained by adjusting the cost of goods still on hand at the end of the year against the purchases.

Trading Account of…. for the year ended…..

		₹			₹
To Opening Stock		XXX	By Sales	XXX	XXX
To Purchases	XXX		*Less*: Returns Inwards	XXX	XXX
Less: Returns outwards	XXX	XXX	By Closing Stock		XXX
To Direct expenses:		XXX	By Gross Loss c/d*		XXX
Freight & Carriage	XXX				
Customs & Insurance	XXX				
Wages	XXX				
Gas, Water & Fuel	XXX				
Factory Expenses	XXX				
Royalty on production	XXX	XXX			

To Gross Profit c/d*		XXX			
		XXX			XXX

*Only one will appear

PROFIT AND LOSS ACCOUNT

The Profit and Loss Account starts with gross profit on the credit side. If there is gross loss, it will be written on the debit side. After that all those expenses and losses, which have not been entered in the Trading Account, will be written on the debit side of Profit and Loss Account. Incomes and gains, other than sales, will be written on the credit side.

Profit and Loss Account for the year ended.

Particulars	**₹**	**Particulars**	**₹**
Gross Loss b/d		**By Gross Profit b/d**	
Management expenses		**Other Income**	
To Salaries (administrative)		By Discount Received	
To Office rent, rates and taxes		By Commission Received	
To Printing and stationery		**Non-trading Income**	
To Telephone charges		By Bank Interest	
To Postage		By Rent of property let-out	
To Insurance		By Dividend from investment in shares	
To Audit Fees		**Abnormal Gains**	
To Legal Charges		By Profit on sale of machinery	
To Electricity Charges		By Profit on sale of investment	
Maintenance expenses			
To Repairs & renewals		**By Net Loss (transferred to capital A/c)**	
To Depreciation on:			
Office Equipment			
Office Furniture			
Office Buildings			
Selling and Distribution expenses			
To Salaries (selling staff)			
To Advertisement			
To Godown rent			
To Carriage Outward			

To Bad Debts To Provision for bad debts To Selling commission **Financial expenses** To Bank charges To Interest on loans To Discount on bills To Discount allowed to customers **Abnormal Losses** To Loss on sale of machinery To Loss on sale of investment To Loss by fire **To Net Profit (transferred to Capital A/c)**			

Note:

i. Gross loss appears in the debit side of the Profit and Loss Account at the top, while Gross Profit on the credit side.

ii. Net loss appears in the credit side of the Profit and Loss Account, while Net profit on debit side as balancing figures.

Balance Sheet

The balance sheet of a company is a statement which shows the total value of assets owned and total of the company's liabilities owed by of trading on a particular date or at the end of trading period. Balance Sheet is also called the statement of assets and liabilities and net worth. The Balance Sheet of the company shall give true and fair view of the state of affairs of the company as at the end of the financial year. True and fair view means that there should be no window-dressing on any item of the balance sheet. For the true and fair view of the state of affairs of the company, assets and liabilities should be correctly given, provisions should be shown in the sufficient amount, contingent assets and contingent liabilities should be given as notes of the Balance Sheet and stock should be valued on the basis of accounting principles.

Balance Sheet as at…

Liabilities	**Amount**	**Assets**	**Amount**
	₹		**₹**
Capital Reserves & Surplus Outstanding Expenses		Land and Building Plant & Machinery Furniture & Fixtures	

Loans Trade Creditors Bills Payable		Stock Sundry Debtors Bills Receivable Other Investments Government Securities Cash at Bank Cash in Hand	

CLASSIFICATION OF ASSETS AND LIABILITIES

Assets are basically of following types:

Current Assets: - these assets are meant to be converted into cash as quickly as possible. Generally, within one year. For example: - Cash in hand, Cash at Bank, Trade receivables, Inventories.

Long Term Assets: - Those that are meant to be used by the firm over a long period and not sold the former type of assets is also called fixed assets. For example: - Machinery, Building, Long term Investment.

Intangible Assets: - the assets which have no physical existence and cannot be seen or touched are called as Intangible Assets. For example: - Patents, Copyrights etc.

It is desirable that in the balance sheet the two types of assets should be shown separately and prominently. This would give meaningful and logical information.

Liabilities to outsider will be of two types:

Current Liabilities: - this liability must be settled in one year or less. It is also called as short-term liability. For example: - Creditors, Bills Payable etc.

Long Term Liability: - those liabilities which exists for more than one year are long-term liabilities. For example, long term loans from banks. Of course, it will include undistributed profits also.