SSC

SMIT SIR COMMERCE

GSEB | ENGLISH MEDIUM

ELEMENTS OF BOOK-KEEPING & ACCOUNTANCY

STANDARD 11

CHAPTER 1

Accounting and Its Terminology

Deep Concept Notes | Easiest Explanations | Real Examples | Board Preparation

Prepared by	Smit Thaker
Website	www.smitsircommerce.in
Email	info@smitsircommerce.com
Mobile	6353709585

Learn the Concept. Understand the Logic. Write Better Answers.

How to Use These Notes

Accounts becomes difficult only when students try to memorise words without understanding what actually happens in a business. This chapter is the language-building chapter. If terms such as asset, liability, capital, revenue, expense, debtor and creditor become clear now, later chapters become much easier.

- Step 1 - Understand: Read the 'simple meaning' before the formal exam line.
- Step 2 - Visualise: Imagine a small shop and ask: what came in, what went out, who has to pay, and who must be paid?
- Step 3 - Classify: Use the decision tables and comparison charts.
- Step 4 - Practise: Solve the quick classifications, MCQs and case-based questions.
- Step 5 - Revise: Use the master sheet at the end before the exam.

DEEP RESEARCH - CONCEPT ENRICHMENT

The GSEB textbook is the primary exam source. For concept enrichment, these notes also cross-check introductory accounting ideas with NCERT Class 11 Accountancy, ICAI's financial-reporting framework and the IFRS Conceptual Framework. Where modern terminology differs, GSEB wording is kept as the exam wording.

Chapter Roadmap

Block	What You Will Learn
A	Why accounting exists: barter -> money -> transactions -> records
B	Meaning, characteristics, objectives, advantages and limitations
C	Accounting as language, science/art and branches
D	Qualitative characteristics and users of accounting information
E	Complete accounting terminology - more than 45 key terms
F	Accounting systems/methods and bases
G	Steps to prepare accounts
H	Board practice, cases, MCQs and revision

EXAM IMPORTANT

Most future mistakes in Journal, Ledger and Final Accounts begin with wrong terminology. So Chapter 1 is not 'only theory' - it is your foundation.

1. Introduction - Why Did Accounting Become Necessary?

Human wants are many. In early exchange, people used the barter system: one product was exchanged for another product. Barter worked only when both parties wanted exactly what the other person had.

As trade expanded, barter became inconvenient. Money emerged as a common medium of exchange. Once business started dealing with many purchases, sales, receipts, payments, debtors and creditors, memory was no longer enough. A systematic record became necessary.

REMEMBER THIS

Accounting begins because a business needs a reliable answer to simple questions: What happened? How much? With whom? What is still receivable? What is still payable? Profit or loss?

Barter vs Money Economy

Point	Barter System	Money Economy
Exchange	Product for product / service	Product or service measured in money
Common Measure	No common unit	Money gives a common unit
Record-Keeping	Difficult to compare transactions	Transactions can be measured and recorded
Example	10 kg wheat exchanged for cloth	Cloth sold for Rs. 2,000

SMIT SIR'S NOTE

Accounting does not record every human activity. It mainly records those business transactions/events that can be measured in money.

2. Meaning of Accounting

Simple Meaning: Accounting is a systematic process of identifying, recording, classifying, summarising, analysing and communicating financial information about business transactions.

In student language: Accounting converts daily business activity into useful information.

KEY TERM - ACCOUNTING

A systematic process that records and processes monetary business transactions so that useful financial information can be provided to users.

DEEP RESEARCH - CONCEPT ENRICHMENT

Modern accounting is more than 'writing books'. NCERT describes the accountant's role as moving beyond mere record keeping toward providing information for decision making. This is why accounting is often called an information system.

Book-Keeping vs Accounting

Basis	Book-Keeping	Accounting
Main Job	Recording financial transactions	Recording + classifying + summarising + analysing + interpreting
Scope	Narrower	Wider
Stage	Early/basic stage	Uses book-keeping records to produce information
Decision Support	Limited	Important for decisions
Easy Memory	Write the transactions	Understand what the records mean

EXAM IMPORTANT

If asked 'Accounting is synonymous with book-keeping?' answer No. Book-keeping is an important part of accounting, but accounting has a wider scope.

3. Characteristics of Accounting - Overview

Characteristic	Meaning
1. Financial Characteristics	Only transactions/events measurable in money are recorded.
2. Money as a Medium of Exchange	Different goods/services are converted into one common monetary unit.
3. Classification and Analysis	Transactions are grouped and analysed according to their nature.
4. Answers to Questions	Accounting helps answer financial questions about business.
5. Quantitative Information	Accounting primarily provides numerical/monetary information.
6. Economic Decisions	Information helps users make economic decisions.
7. Historical Information	Records largely describe transactions that have already occurred.

1. Financial Characteristics

Only transactions/events measurable in money are recorded.

Example: Purchase of chemicals for Rs.10,000 is measurable and recordable. Employee honesty is valuable, but it cannot normally be recorded in rupees as an accounting transaction.

2. Money as a Medium of Exchange

Different goods/services are converted into one common monetary unit.

Example: 10 kg chemicals and one computer are physically different, but accounting can record both because money converts them into comparable values.

3. Classification and Analysis

Transactions are grouped and analysed according to their nature.

Example: Purchases are grouped together, sales are grouped together, assets are identified separately, and so on.

4. Answers to Questions

Accounting helps answer financial questions about business.

Examples of questions answered: How much cash? How much debt? How much receivable? What profit? What assets?

5. Quantitative Information

Accounting primarily provides numerical/monetary information.

6. Economic Decisions

Information helps users make economic decisions.

Example: A bank checks financial records before lending. Management compares expenses with sales before deciding cost-control measures.

7. Historical Information

Records largely describe transactions that have already occurred.

Accounting Process - From Transaction to Report

Stage	What Happens
Input	Identify a transaction/event and measure it in money
Record	Write it through voucher / books of original entry
Classify	Group similar items into accounts
Summarise	Prepare trial balance / financial summaries
Analyse & Interpret	Understand profit, financial position and trends
Report	Communicate useful information to users

REMEMBER THIS

Input -> Process -> Report. This is why accounting can be understood as an information system.

4. Objectives / Functions of Accounting

Objective	Easy Explanation
1. Permanent Records	Transactions are recorded systematically so that the business does not depend on memory.
2. Know the Effect of Each Transaction	Every transaction changes one or more financial elements such as cash, assets, liabilities, capital, income or expenses.
3. Know Influential Factors	Accounts help identify factors affecting profit, loss and economic position.
4. Determine Liabilities	Shows amounts payable to creditors and other parties.
5. Determine Receivables	Shows amounts that customers and others still have to pay to the business.
6. Measure Profitability	Helps calculate profit or loss for a period.
7. Know Economic / Financial Status	Shows assets, liabilities and solvency/financial position.
8. Detect and Avoid Errors and Frauds	Systematic records and checking can reveal irregularities.
9. Support Decisions	Although spread through the chapter, the deeper purpose is to provide information useful for planning and economic decisions.

1. Permanent Records

Transactions are recorded systematically so that the business does not depend on memory.

2. Know the Effect of Each Transaction

Every transaction changes one or more financial elements such as cash, assets, liabilities, capital, income or expenses.

3. Know Influential Factors

Accounts help identify factors affecting profit, loss and economic position.

4. Determine Liabilities

Shows amounts payable to creditors and other parties.

Example: Goods purchased on credit for Rs.20,000 create an amount payable in the future.

5. Determine Receivables

Shows amounts that customers and others still have to pay to the business.

Example: Goods sold on credit to a customer create a receivable until payment is collected.

6. Measure Profitability

Helps calculate profit or loss for a period.

7. Know Economic / Financial Status

Shows assets, liabilities and solvency/financial position.

8. Detect and Avoid Errors and Frauds

Systematic records and checking can reveal irregularities.

9. Support Decisions

Although spread through the chapter, the deeper purpose is to provide information useful for planning and economic decisions.

5. Advantages of Accounting

Advantage	Why It Matters
1. Availability of Accounting Information	Records are available whenever the owner, bank, investor or other authorised user needs them.
2. Know Profitability	Shows profit or loss for the accounting period.
3. Know Financial Status	Shows the relationship between assets and liabilities and helps judge solvency.
4. Tax Planning and Compliance	Well-kept records support proper calculation and planning of tax obligations.
5. Valuation of Business	Records help estimate a business's financial value in sale, admission, retirement or other situations.
6. Decision Making	Management and other users can compare alternatives using financial information.
7. Evidence	Proper records can serve as documentary evidence in disputes.
8. Comparison with Past Operations	Current results can be compared with previous periods and, where meaningful, competitors.
9. Moral Control	Written records create accountability and can discourage careless or dishonest behaviour.
10. Corrective Measures	Past results help management identify weaknesses and take improvement measures.

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DEEP RESEARCH - CONCEPT ENRICHMENT

Decision usefulness is a central idea in modern financial reporting too: information is valuable because users use it to make choices about resources, lending, investment and management.

6. Limitations of Accounting

Limitation	Easy Explanation
1. Non-Financial Factors Are Usually Not Recorded	Employee morale, reputation and management quality may matter greatly but are difficult to measure reliably in money.
2. Money Value Is Not Stable	Inflation changes purchasing power, yet many records use historical rupee amounts.
3. Mainly Historical	Accounts primarily record events that already happened.
4. Market Value May Change	Book values can differ from current market values.
5. Estimates Are Used	Depreciation, bad-debt estimates and similar items require judgement; estimates can differ.
6. Different Measurement Bases Can Create Mismatch	The textbook notes that different components may be prepared using different valuation bases, reducing perfect comparability.

1. Non-Financial Factors Are Usually Not Recorded

Employee morale, reputation and management quality may matter greatly but are difficult to measure reliably in money.

2. Money Value Is Not Stable

Inflation changes purchasing power, yet many records use historical rupee amounts.

Example: An asset bought years ago may still appear at a historical cost-based amount even though replacing it today costs much more.

3. Mainly Historical

Accounts primarily record events that already happened.

4. Market Value May Change

Book values can differ from current market values.

5. Estimates Are Used

Depreciation, bad-debt estimates and similar items require judgement; estimates can differ.

Example: Two accountants can reasonably estimate a different useful life for an asset, producing different depreciation amounts.

6. Different Measurement Bases Can Create Mismatch

The textbook notes that different components may be prepared using different valuation bases, reducing perfect comparability.

COMMON MISTAKE

Accounting is powerful, but it does not mean every number is exact or every important business factor appears in the accounts.

Accounting as the Language of Business

A language communicates information through agreed words and rules. Accounting does the same for business: transactions are recorded using common terms, formats and principles so that users can understand financial results.

SMIT SIR'S NOTE

Think of accounting words like asset, liability, revenue and expense as the vocabulary, and accounting rules as the grammar.

Is Accounting a Science or an Art?

Science: Accounting has organised knowledge, principles and rules that are applied systematically.

Art: Accounting also requires skill and judgement in applying rules to real situations and presenting information meaningfully.

EXAM IMPORTANT

For the board answer, explain that accounting has features of both science and art.

Branches / Categories of Accounting

Branch	Main Focus	Simple Example
Financial Accounting	Preparation of financial records/statements for overall business information	Profit, assets, liabilities
Cost Accounting	Ascertainment and control of product/service cost	Cost per unit
Management Accounting	Information for internal managerial planning and control	Budgets, decisions, performance analysis

7. Qualitative Characteristics of Accounting Information

Good accounting information is not useful merely because numbers are present. The information must have qualities that make it trustworthy and understandable.

GSEB Characteristic	Meaning
Reliability	Information can be trusted and should be free from material bias/error.
Relevance	Information should matter to the user's decision.
Understandability	Information should be presented clearly enough for users to understand.
Comparability	Users should be able to compare periods and businesses meaningfully.

Reliability

Reliable information reflects the transaction faithfully enough for users to trust it. Proper vouchers, systematic recording and verification improve reliability.

Example: A purchase recorded from an authentic invoice is more reliable than an unsupported guess.

Relevance

Relevant information has the ability to influence a decision.

Example: An investor deciding whether to invest needs information about profitability, liabilities and future financial capacity.

Understandability

Information should be organised and presented clearly. Users are expected to have a reasonable understanding of business and accounting, but the report should still be understandable.

Comparability

Users should be able to compare the same business across periods and, where appropriate, compare one business with another.

REMEMBER THIS

Consistency in methods helps comparability, but consistency and comparability are not exactly the same thing.

DEEP RESEARCH - CONCEPT ENRICHMENT

Modern IFRS terminology treats relevance and faithful representation as fundamental characteristics, with comparability, verifiability, timeliness and understandability as enhancing characteristics. For the GSEB exam, however, use the textbook list: Reliability, Relevance, Understandability, Comparability.

8. Users of Accounting Information

User	What They Want to Know
1. Management	Plans, controls, measures performance and takes corrective action.
2. Shareholders / Owners	Judge performance, dividend potential and safety of their investment.
3. Potential Shareholders / Investors	Evaluate whether they should invest and what return/risk may exist.
4. Creditors / Lenders	Assess repayment capacity and creditworthiness.
5. Employees	Assess stability, profitability, wage capacity and long-term job security.
6. Tax Authorities	Use records to assess applicable taxes and compliance.
7. Customers	May assess business continuity, price/value and reliability of supply.
8. Foreign Entrepreneurs / Business Partners	Evaluate solvency, liquidity, profitability and business strength before collaboration.
9. Regulatory Bodies	Use financial information for regulation and compliance.
10. Professional Bodies	Develop and guide accounting standards, practices and professional conduct.
11. Researchers and Analysts	Study profitability, solvency, liquidity, operations and trends.
12. Government	Uses information for policy, planning, regulation and economic administration.

Users - The Easiest Memory Logic

Instead of memorising 12 names blindly, group users by the question they ask:

Question	Users
Can the business earn and grow?	Owners, potential investors, management
Can the business repay?	Creditors, lenders
Is my income/job safe?	Employees
Are taxes/rules followed?	Tax authorities, regulators, government
Can I trust this business?	Customers, foreign partners
What can we learn from the data?	Researchers, analysts, professional bodies

9. Accounting Terminology - The Core Vocabulary

This is the most important practical part of the chapter. We will learn each term by answering: What is it? Why does it arise? What is the easiest example? What can be confused with it?

9.1 Business Transaction

Simple Meaning: A business transaction is an economic activity of the business that can be measured in money and changes the financial position of the business.

KEY TERM - BUSINESS TRANSACTION

An economic event involving the business that has measurable financial effect and is recorded in the books.

Cash transaction example: Goods sold for cash Rs.5,000.

Credit transaction example: Goods sold on credit to Rajnikant for Rs.5,000, payable later.

EXAM IMPORTANT

A transaction must have financial/economic value. A mere plan or intention is normally not recorded.

Transaction - Quick Test

Ask these questions:

1. Did something actually happen?
2. Does it relate to the business?
3. Can its effect be measured in money?
4. Does it affect cash, asset, liability, capital, income or expense?

If the answers are yes, it is likely an accounting transaction.

9.2 Event

An event is a result or situation arising from transactions or other circumstances. A transaction is an act; an event is often the resulting condition.

Example: Sales Rs.5,000, purchases Rs.3,000 and wages Rs.500 are transactions. Their combined result - profit Rs.1,500 - is an event/result.

9.3 Capital

Simple Meaning: Capital is the amount or value introduced by the owner into the business.

It may be cash, goods or assets such as furniture or machinery.

Example: Owner introduces cash Rs.10,000, goods Rs.6,000 and furniture Rs.8,000. Total capital introduced = Rs.24,000.

REMEMBER THIS

Owner gives capital to the business. In accounting, the business is treated separately from its owner.

9.4 Drawings

Simple Meaning: Drawings are cash, goods or other business assets withdrawn by the owner for personal use.

Effect: Drawings reduce owner's capital.

Examples: Cash withdrawn for personal expenses; goods taken home by owner; business paying owner's personal insurance.

KEY TERM - DRAWINGS

Personal withdrawals by the owner from business resources.

Capital vs Drawings

Point	Capital	Drawings
Direction	Owner -> Business	Business -> Owner
Effect on Capital	Increases	Decreases
Purpose	Investment in business	Personal use
Example	Owner introduces Rs.50,000	Owner withdraws Rs.5,000

9.5 Liability

Simple Meaning: A liability is an amount the business is obligated to pay in the future.

Examples: Credit purchases, bank loan, outstanding rent, unpaid salaries.

REMEMBER THIS

Liability means business owes someone.

Internal vs External Liability

Type	Meaning	Example
Internal Liability	Amount payable to owner / claim of owner on business	Capital
External Liability	Amount payable to outsiders / third parties	Creditors, bank loan, outstanding expense

SMIT SIR'S NOTE

The textbook classifies the owner's claim as internal liability because the owner and business are treated separately for accounting.

Current vs Non-Current Liability

Type	Time Logic	Examples
Current Liability	Normally payable within one year / short term	Creditors, outstanding expenses, short-term dues
Non-Current Liability	Payable after a longer period	Long-term bank loan, debentures

9.6 Asset

Simple Meaning: An asset is a business resource or right that has economic value and is expected to provide benefit.

Examples: Cash, bank balance, stock, debtors, machinery, furniture, building, patents.

DEEP RESEARCH - CONCEPT ENRICHMENT

Modern financial-reporting frameworks define an asset around a present economic resource controlled by the entity as a result of past events. At Class 11 level, remember the easier idea: a useful business resource/right with economic value.

Classification of Assets

Type	Meaning	Examples
Non-Current Asset	Used/held for more than one year	Land, building, plant, long-term investments
Current Asset	Expected to convert into cash/use within one year	Cash, stock, debtors, bills receivable
Fictitious Asset - textbook term	Deferred expenses / items without realisable value	Preliminary expenses etc. in traditional textbook treatment

COMMON MISTAKE

Do not treat 'fictitious asset' as a modern asset in the same sense as cash or machinery. It is an older textbook classification for deferred expenditure / non-realisable balance-sheet items.

Tangible vs Intangible Asset

Type	Can You Physically Touch It?	Examples
Tangible Asset	Yes	Land, building, machinery, furniture, vehicle
Intangible Asset	No physical form	Patent, copyright, trademark, goodwill

REMEMBER THIS

Tangible = physical. Intangible = legal/economic right without physical form.

Current, Liquid and Real Assets

Current Assets: Short-term assets that are expected to be realised/used within about one year in textbook framing.

Liquid Assets: Current assets that can be converted into cash quickly. Cash and bank are the most liquid.

Real Assets: Assets having realisable/economic value, as distinguished in the textbook from fictitious assets.

9.7 Receipts

Receipt means money received by the business as a consequence of business transactions.

Type	Nature	Examples
Capital Receipt	Not regular; often related to capital/fixed assets/financing	Capital introduced, long-term borrowing, sale of fixed asset
Revenue Receipt	Regular/operating receipt connected with ordinary business income	Sales, commission, interest, rent received

REMEMBER THIS

Every receipt is not revenue. Loan received brings cash but does not create profit by itself.

9.8 Payments, Expenditure and Expense

Payment: Cash/bank outflow made by the business.

Expenditure: Amount spent or liability incurred for acquiring an asset, service or benefit.

Expense: Portion of cost/expenditure whose benefit is consumed in the current accounting period.

SMIT SIR'S NOTE

These words are related but not identical. Payment focuses on cash flow; expenditure focuses on spending/incurring; expense focuses on current-period consumption.

Capital Expenditure vs Revenue Expenditure

Basis	Capital Expenditure	Revenue Expenditure
Frequency / Nature	Generally non-routine; creates/improves long-term asset	Routine operating expenditure
Benefit	More than one accounting period	Mainly current period
Effect	Usually asset/capitalised	Charged as expense
Examples	Machine purchase, building	Salary, wages, telephone, rent

EXAM IMPORTANT

Best test: Does the benefit mainly extend beyond the current period? If yes, it is usually capital in nature.

9.9 Revenue

Simple Meaning: Revenue is income earned from ordinary business activities.

Examples: Sales revenue, commission received, interest received, rent received depending on the nature of business.

9.10 Profit, Loss and Gain

Term	Easy Meaning	Formula / Example
Profit	Revenue exceeds expenses from business operations	Revenue - Expenses > 0
Loss	Expenses exceed revenue, or loss occurs from an adverse event	Expenses > Revenue
Gain	Increase from an incidental/non-routine event	Asset sold above book value

COMMON MISTAKE

Profit and gain are not always the same. Profit usually refers to overall operating result; gain may arise from a specific incidental event.

9.11 Purchases

For a trading business, purchases means goods bought for resale. Buying stationery or furniture is not 'purchases of goods' for a trader; stationery is expense and furniture is an asset.

Example: A grain merchant buys grain for resale -> Purchases. The same merchant buys a computer -> Computer asset, not Purchases.

EXAM IMPORTANT

The word goods means items in which the business normally trades.

9.12 Sales

Sales means goods sold by the business in the ordinary course of trade.

Sale of an old machine is not 'sales' for a trader unless machines are the goods in which that business trades.

9.13 Stock

Stock means goods remaining unsold at a particular date.

Opening Stock: Unsold goods at the beginning of the accounting period.

Closing Stock: Unsold goods at the end of the accounting period.

9.14 Debtors

Simple Meaning: A debtor is a person who owes money to the business, generally because goods were sold to that person on credit.

Example: Goods sold on credit to Rahul Rs.10,000 -> Rahul is a debtor until payment is collected.

REMEMBER THIS

Debtor = business has to receive.

9.15 Bills Receivable

A bill receivable is a written instrument representing an amount the business is legally entitled to receive on a future date.

SMIT SIR'S NOTE

Debtor is a person. Bills receivable is a written receivable instrument.

9.16 Receivables

Receivables is a broader term for amounts the business expects to collect.

Receivable Type	Example
Debtors	Credit customer
Bills Receivable	Amount under accepted bill
Outstanding Income	Income earned but not yet received
Prepaid Expense - textbook presentation note	The source includes it in a broad receivables-style chart because future benefit is receivable

9.17 Creditors

Simple Meaning: A creditor is a person to whom the business owes money, usually because goods were purchased on credit.

Example: Goods purchased on credit from Mehta Traders Rs.12,000 -> Mehta Traders is a creditor.

REMEMBER THIS

Creditor = business has to pay.

9.18 Bills Payable and Payables

Bills Payable: Written instrument representing a future amount the business must pay.

Payables: Broader term including creditors, bills payable, outstanding expenses and certain advance receipts.

Receivable	Payable
Money expected to come in	Money expected to go out
Debtors, bills receivable	Creditors, bills payable
Asset-side idea	Liability-side idea

9.19 Cost

Cost is the amount of resources sacrificed to produce a product or provide a service.

Example: Material + labour + other production-related costs together contribute to the cost of a product.

9.20 Voucher

A voucher is documentary evidence of a business transaction. It supports the amount, date, parties and nature of the transaction.

- Sales bill
- Purchase bill
- Debit note
- Credit note
- Cheque counterfoil / bank evidence
- Pay-in slip
- Receipt issued
- Receipt received
- Expense bill

KEY TERM - VOUCHER

Source document / evidence used as the basis for recording a transaction.

What a Good Voucher Usually Contains

1. Name and address of voucher issuer.
2. Name and address of voucher receiver.
3. Date.
4. Serial number.
5. Amount in figures and words.
6. Signature of payer / authorised person.
7. Signature of receiver where required.
8. Type / purpose of voucher.

9.21 Gross and Net Purchase / Sale

Gross amount: Total price before deducting discount.

Net amount: Amount after relevant discount deduction.

Example: List price Rs.10,000 less trade discount 10% = net invoice amount Rs.9,000.

9.22 Trade Discount vs Cash Discount

Basis	Trade Discount	Cash Discount
Why Given	Trade/customary reduction at sale/purchase time	Encourages prompt payment
When	At the time of transaction/invoice	At the time of settlement/payment
Recorded Separately?	Normally not recorded separately in books	Recorded in accounts
Example	10% off list price	2% discount for paying within 10 days

EXAM IMPORTANT

Trade discount affects the invoice/net transaction amount. Cash discount is an accounting item recorded at payment/collection.

9.23 Discount Received vs Discount Allowed

Discount Received: Benefit to business when it pays a supplier less than the amount due. It is treated as income/gain in the textbook.

Discount Allowed: Reduction given by business to a customer at collection time. It is treated as expense/loss.

REMEMBER THIS

Received = income. Allowed = expense.

9.24 Depreciation

Depreciation is the systematic reduction/allocation of the cost of a depreciable asset over its useful life. The textbook introduces it as a non-cash expense representing fall in value/use of asset over time.

Example: Machinery is used for several years. Part of its cost is charged as expense each year.

DEEP RESEARCH - CONCEPT ENRICHMENT

For deeper understanding: depreciation is not a 'cash payment every year'. It is an accounting allocation of asset cost over periods benefiting from its use.

9.25 Bad Debts

Bad debt is an amount receivable from a debtor that becomes irrecoverable.

Example: Customer owes Rs.5,000 but becomes insolvent and the amount cannot be collected. The irrecoverable amount becomes bad debt and is treated as a loss/expense.

9.26 Solvent and Insolvent

Term	Meaning
Solvent	Able to meet financial obligations; assets/resources are sufficient relative to liabilities in broad textbook sense
Insolvent	Unable to pay obligations; liabilities exceed available ability/resources to settle them

9.27 Debit and Credit

Debit and credit are the two sides/effects used in double-entry accounting.

Debit side: left side of an account.

Credit side: right side of an account.

COMMON MISTAKE

Debit does not always mean 'bad' or 'money out', and credit does not always mean 'good' or 'money in'. Their meaning depends on the type of account.

9.28 Account

An account is a systematic record of transactions relating to a particular person, asset, expense, income or other item.

Example: Instead of searching 20 transactions to know what happened with Pushpaben, all transactions relating to Pushpaben can be collected in Pushpaben's Account.

KEY TERM - ACCOUNT

A classified record that collects all transactions relating to one item/person under one heading.

Terminology Decision Table - Asset, Expense or Purchases?

Situation	Correct Treatment	Why
Trader buys goods for resale	Purchases	Goods are stock-in-trade
Trader buys computer	Asset	Computer provides future benefit
Trader buys stationery	Expense	Stationery is consumed in operations
Furniture dealer buys furniture for resale	Purchases	Furniture is goods for that business
Furniture dealer buys office computer	Asset	Not held for resale

Terminology Decision Table - Debtor or Creditor?

Question	If YES	Term
Did we sell goods/services on credit to this person?	They owe us money	Debtor / Receivable
Did we buy goods/services on credit from this person?	We owe them money	Creditor / Payable

REMEMBER THIS

Debtor -> Receive. Creditor -> Pay.

Terminology Decision Table - Receipt, Revenue or Capital?

Transaction	Cash Comes In?	Revenue?	Why
Cash sales	Yes	Yes	Ordinary operating income
Commission received	Yes	Yes	Income
Owner introduces capital	Yes	No	Owner's investment
Bank loan received	Yes	No	Creates liability
Sale of old machine	Yes	Not normal sales revenue	Capital / asset disposal receipt

10. Methods / Systems of Accounting

The textbook introduces two broad systems: Deshi Nama system and Double Entry system. It then explains different bases under double entry.

System / Basis	Core Idea
Deshi Nama	Traditional indigenous method; practices can vary
Double Entry	Every transaction has dual effect and is recorded systematically
Mercantile / Accrual Basis	Recognise income/expense when earned/incurred, not only when cash moves
Cash Basis	Record mainly when cash is actually received/paid
Mixed / Hybrid Basis	Combination of cash and accrual features

Deshi Nama vs Double Entry

Basis	Deshi Nama	Double Entry
Nature	Traditional / indigenous	Systematic dual-effect system
Uniform Rules	Can vary by user/region	Uses defined debit-credit rules
Completeness	May not provide complete double-effect record	Every transaction has two effects
Modern Usage	Limited / traditional	Widely used

Mercantile / Accrual Basis

Under mercantile or accrual basis, income and expenses are recognised in the period to which they belong, even if cash is not yet received or paid.

Example: Salary for March is Rs.5,000 but remains unpaid on 31 March. The salary still belongs to that year's expense because it was incurred.

DEEP RESEARCH - CONCEPT ENRICHMENT

Accrual accounting is also an underlying assumption in ICAI's financial-reporting framework. It helps match economic activity with the period in which it occurs.

Cash Basis

Under cash basis, transactions are mainly recorded when cash is actually received or paid.

Outstanding and advance items are generally not treated in the same way as under accrual accounting.

SMIT SIR'S NOTE

Cash basis is easier, but it can hide obligations or earnings that exist even when cash has not moved yet.

Mixed / Hybrid Basis

Mixed basis combines elements of cash and accrual methods. The textbook notes that it is a modified approach and is not the normal basis for companies preparing accounts under prescribed accounting standards.

Mercantile vs Cash Basis - One-Look

Situation	Mercantile / Accrual	Cash Basis
Salary outstanding	Expense recorded now	Usually recorded when paid
Income earned but not received	Income recorded now	Usually recorded when received
Prepaid expense	Adjusted to relevant period	Cash payment may be recognised when paid
Focus	Period to which income/expense belongs	Actual cash movement

11. Steps to Prepare Accounts

The source shows the accounting process as a sequence. Understanding this now makes later chapters easier.

Step	Stage	What Happens
1	Voucher	Collect documentary evidence
2	Identification of Transaction	Decide whether economic/non-economic and cash/credit etc.
3	Journal / Subsidiary Books	Record the transaction
4	Ledger / Posting	Classify transactions account-wise
5	Trial Balance and Adjustments	Check balances and make necessary adjustments
6	Final Accounts	Prepare Trading A/c, Profit & Loss A/c and Balance Sheet

Accounting Cycle - Easy Story

Think of one purchase: A shop buys goods on credit.

1. Purchase bill becomes the voucher/source document.
2. Accountant identifies it as a business/economic credit transaction.
3. It is recorded in Journal / relevant subsidiary book.
4. It is posted to Purchases and Supplier accounts in the Ledger.
5. Balances appear in the Trial Balance.
6. At year-end, adjusted balances help prepare final accounts.

REMEMBER THIS

Voucher -> Identify -> Record -> Classify -> Check -> Final Accounts.

Deep Concept: Why Every Transaction Has Two Effects

Even before Chapter 2 formally teaches dual effect, you can begin thinking this way: whenever something changes in a business, another financial element usually changes with it.

Transaction	Effect 1	Effect 2
Owner introduces cash	Cash increases	Capital increases
Buy furniture for cash	Furniture increases	Cash decreases
Buy goods on credit	Purchases/stock-related effect increases	Creditor/liability increases
Pay rent	Expense increases	Cash decreases
Credit sale	Debtor/receivable increases	Sales/revenue increases

SMIT SIR'S NOTE

You do not need to master debit-credit rules yet. Just learn to see the two-sided financial effect.

How to Write Major Theory Answers

Q1. Define Accounting and explain its characteristics.

Structure: 2-line meaning -> list characteristics -> explain each with one simple example.

Q2. Explain Objectives of Accounting.

Structure: Start with purpose -> write 8-9 objectives in textbook order.

Q3. Explain Advantages and Limitations.

Structure: Use separate headings; never mix a limitation into advantage.

Q4. Explain Qualitative Characteristics.

Board wording: Reliability, Relevance, Understandability, Comparability.

Q5. Explain Users of Accounting Information.

Structure: User -> what decision/information they need.

Q6. Explain Capital/Revenue Receipt or Expenditure.

Structure: Meaning -> 2 differences -> 2 examples.

Common Mistakes Students Make

COMMON MISTAKE

Wrong idea: Purchases means everything bought by the business.
Correct idea: Purchases means goods bought for resale; furniture/computer may be assets and stationery may be expense.

COMMON MISTAKE

Wrong idea: Sales means sale of every asset.
Correct idea: Sales normally means sale of goods in which the business trades.

COMMON MISTAKE

Wrong idea: Debtor is a person we have to pay.
Correct idea: Debtor owes money to the business; creditor is the person business has to pay.

COMMON MISTAKE

Wrong idea: Capital is income.
Correct idea: Capital is owner's investment, not revenue.

COMMON MISTAKE

Wrong idea: Loan received is revenue.
Correct idea: Loan receipt creates a liability; it does not by itself create profit.

COMMON MISTAKE

Wrong idea: Every cash outflow is an expense.
Correct idea: Buying machinery uses cash but creates an asset; not all payments are expenses.

COMMON MISTAKE

Wrong idea: Trade discount and cash discount are identical.
Correct idea: Trade discount adjusts invoice price; cash discount relates to prompt settlement.

COMMON MISTAKE

Wrong idea: Debit means money out and credit means money in.
Correct idea: Debit/credit depend on account type; they are not simple cash directions.

COMMON MISTAKE

Wrong idea: Stock means any asset owned.
Correct idea: Stock usually means unsold goods held for resale.

COMMON MISTAKE

Wrong idea: Depreciation means cash is paid every year.
Correct idea: Depreciation is a non-cash allocation/expense.

COMMON MISTAKE

Wrong idea: Outstanding expense is not an expense because not paid.
Correct idea: Under accrual/mercantile basis it belongs to the period even if unpaid.

COMMON MISTAKE

Wrong idea: Prepaid expense is current expense.
Correct idea: Only the consumed part is current-period expense; prepaid portion represents future benefit.

Quick Classification Drill - 20 Items

Situation	Correct Term
Owner introduces Rs.1,00,000 cash	Capital
Owner withdraws Rs.5,000 for home use	Drawings
Goods sold on credit to Rahul	Debtor / Sales
Goods bought on credit from Mehta Traders	Creditor / Purchases
Computer bought for office use	Asset
Stationery bought for office use	Expense
Cash received from bank loan	Capital receipt / Liability
Cash received from sales	Revenue receipt
Machine purchased	Capital expenditure / Asset
Salary paid	Revenue expenditure / Expense
Interest received	Revenue / Income
Discount allowed	Expense / Loss
Discount received	Income / Gain
Customer becomes unable to pay	Bad debt
Annual fall/allocation in machinery value	Depreciation
Unsold trading goods at year-end	Closing stock
Amount due from customer	Receivable
Amount due to supplier	Payable
Accepted bill held by business	Bills receivable
Bill accepted by business in favour of supplier	Bills payable

Practice Set A - MCQs

1. Accounting mainly records transactions that are:

- A. measurable in money
- B. purely personal
- C. imaginary
- D. non-economic only

2. Accounting is broader than:

- A. book-keeping
- B. business
- C. money
- D. tax

3. Which is an objective of accounting?

- A. permanent record
- B. remove all risk
- C. predict perfectly
- D. avoid every tax

4. Which is a limitation?

- A. non-financial factors may be ignored
- B. permanent record
- C. decision support
- D. evidence

5. Which is a qualitative characteristic in the GSEB chapter?

- A. Reliability
- B. Advertisement
- C. Promotion
- D. Liquidity only

6. Who is an internal user?

- A. Management
- B. Potential investor
- C. Tax authority
- D. Customer

7. Owner's investment is:

- A. Capital

- B. Revenue
- C. Expense
- D. Bad debt

8. Owner's personal withdrawal is:

- A. Drawings
- B. Sales
- C. Purchase
- D. Liability to supplier

9. Amount payable to outsider is:

- A. External liability
- B. Asset
- C. Revenue
- D. Gain

10. Cash is usually a:

- A. Current/liquid asset
- B. Non-current liability
- C. Expense
- D. Revenue

11. Patent is:

- A. Intangible asset
- B. Tangible asset
- C. Liability
- D. Drawings

12. Sales revenue is usually a:

- A. Revenue receipt
- B. Capital receipt
- C. Liability
- D. Drawing

13. Loan received is usually a:

- A. Capital receipt creating liability
- B. Revenue
- C. Expense
- D. Sales

14. Machine purchase is normally:

- A. Capital expenditure
- B. Revenue expenditure
- C. Income
- D. Drawings

15. Salary is normally:

- A. Revenue expenditure
- B. Capital expenditure
- C. Asset
- D. Capital

Practice Set B - MCQs

16. Goods bought for resale are:

- A. Purchases
- B. Furniture
- C. Drawings
- D. Capital

17. Office furniture bought by a grain trader is:

- A. Asset
- B. Purchases
- C. Sales
- D. Expense immediately

18. Person who owes money to business is:

- A. Debtor
- B. Creditor
- C. Owner
- D. Auditor

19. Person to whom business owes money is:

- A. Creditor
- B. Debtor
- C. Customer always
- D. Employee always

20. Bills Receivable represents:

- A. amount to be received
- B. amount to be paid
- C. owner's capital
- D. expense

21. Bills Payable represents:

- A. amount to be paid
- B. amount to be received
- C. income
- D. stock

22. Discount received is treated as:

- A. Income

- B. Expense
- C. Asset
- D. Drawings

23. Discount allowed is treated as:

- A. Expense
- B. Income
- C. Capital
- D. Liability

24. Irrecoverable customer balance is:

- A. Bad debt
- B. Capital
- C. Stock
- D. Gain

25. Systematic reduction/allocation of asset cost is:

- A. Depreciation
- B. Discount
- C. Drawings
- D. Revenue

26. Under accrual basis outstanding salary is:

- A. Expense of current period
- B. ignored until paid
- C. capital
- D. asset

27. Under cash basis focus is mainly on:

- A. actual cash receipts/payments
- B. all outstanding items
- C. market value only
- D. future plans

28. Voucher is:

- A. documentary evidence
- B. liability
- C. profit
- D. stock

29. Left side of an account is:

- A. Debit
- B. Credit
- C. Balance sheet
- D. Voucher

30. Right side of an account is:

- A. Credit
- B. Debit
- C. Purchase
- D. Cash only

MCQ Answer Key

Q	Ans	Q	Ans	Q	Ans	Q	Ans	Q	Ans
1	A	2	A	3	A	4	A	5	A
6	A	7	A	8	A	9	A	10	A
11	A	12	A	13	A	14	A	15	A
16	A	17	A	18	A	19	A	20	A
21	A	22	A	23	A	24	A	25	A
26	A	27	A	28	A	29	A	30	A

Board-Style One-Line Questions

- What is accounting?
- What is book-keeping?
- State any two characteristics of accounting.
- What is meant by reliability of accounting information?
- What is capital?
- What are drawings?
- What is a liability?
- What is a current asset?
- What is an intangible asset?
- What is a capital receipt?
- What is revenue expenditure?
- What is a debtor?
- What is a creditor?
- What is a voucher?
- What is depreciation?
- What is bad debt?
- What is meant by solvent person?
- What is debit?
- What is credit?
- What is an account?

Short / Brief Questions

- Explain accounting as a language of business.
- Explain accounting as science and art.
- State the characteristics of accounting.
- Explain any four objectives of accounting.
- Explain any four advantages of accounting.
- Explain any four limitations of accounting.
- Explain the qualitative characteristics of accounting information.
- Explain any six users of accounting information.
- Distinguish capital and drawings.
- Distinguish current and non-current liabilities.
- Distinguish tangible and intangible assets.
- Distinguish capital and revenue receipts.
- Distinguish capital and revenue expenditure.
- Distinguish debtor and creditor.
- Distinguish trade discount and cash discount.
- Explain mercantile basis and cash basis.

Detailed / Long Questions

- Define accounting and explain its characteristics.
- Explain the objectives/functions of accounting.
- Explain advantages of accounting.
- Explain limitations of accounting.
- Who are the users of accounting information? Explain their needs.
- Explain qualitative characteristics of accounting information.
- Explain the following terms with examples: capital, drawings, liability, assets, receipts and expenditure.
- Explain methods/bases of maintaining accounts.
- Explain the steps to prepare accounts.

Case-Based Practice

Case 1

Amit starts a shop by putting Rs.80,000 cash and a computer worth Rs.20,000 into the business.

Answer: Capital introduced = Rs.1,00,000. Cash and computer are business assets.

Case 2

The shop buys goods worth Rs.15,000 from Riya Traders and promises to pay next month.

Answer: Purchases on credit; Riya Traders becomes a creditor / external liability.

Case 3

Goods costing Rs.6,000 are sold to Kunal on credit for Rs.8,000.

Answer: Kunal becomes debtor/receivable; sales revenue arises.

Case 4

Owner takes goods worth Rs.1,500 home for personal use.

Answer: Drawings; owner's capital reduces.

Case 5

Business receives Rs.50,000 bank loan.

Answer: Cash increases and liability increases; it is not revenue.

Case 6

A customer owing Rs.4,000 becomes insolvent and nothing can be recovered.

Answer: Bad debt Rs.4,000 - loss/expense.

Case 7

A supplier allows Rs.300 reduction for immediate payment.

Answer: Discount received - income/gain for the business.

Case 8

Business allows customer Rs.200 for early payment.

Answer: Discount allowed - expense/loss.

Case 9

Salary for March Rs.7,000 is unpaid on 31 March under mercantile basis.

Answer: Salary expense belongs to current period; outstanding salary is liability.

Case 10

A furniture dealer buys 10 chairs for resale and one laptop for office.

Answer: Chairs = purchases/goods; laptop = asset.

Mini Concept Numericals

1. Profit: Revenue Rs.50,000 - Expenses Rs.38,000 = Profit Rs.12,000.

2. Loss: Revenue Rs.30,000 - Expenses Rs.36,000 = Loss Rs.6,000.

3. Net Purchase after Trade Discount: List price Rs.20,000 - 10% trade discount Rs.2,000 = Rs.18,000.

4. Cash Discount: Amount due Rs.10,000; 2% discount for prompt payment = Rs.200; cash paid = Rs.9,800.

5. Capital Introduced: Cash Rs.40,000 + Furniture Rs.10,000 + Goods Rs.15,000 = Rs.65,000 capital introduced.

Complete Chapter Glossary

Term	Meaning
Accounting	Systematic process of recording and communicating financial information.
Book-Keeping	Basic recording of financial transactions.
Transaction	Measurable economic activity affecting business.
Event	Result/situation arising from transactions or circumstances.
Capital	Owner's investment in business.
Drawings	Owner's personal withdrawals from business.
Liability	Amount/obligation payable by business.
Current Liability	Short-term liability.
Non-Current Liability	Long-term liability.
Asset	Business resource/right with economic value.
Current Asset	Short-term asset expected to be realised/used soon.
Non-Current Asset	Long-term asset.
Tangible Asset	Asset with physical existence.
Intangible Asset	Non-physical economic/legal right.
Liquid Asset	Asset quickly convertible into cash.
Receipt	Money received by business.
Capital Receipt	Non-routine financing/asset-related receipt.
Revenue Receipt	Operating income receipt.
Payment	Cash/bank outflow.
Expenditure	Amount spent or liability incurred for benefit/asset/service.
Capital Expenditure	Expenditure creating long-term benefit/asset.
Revenue Expenditure	Operating expenditure benefiting current period.
Expense	Cost consumed in current period.
Revenue	Income from ordinary activities.
Profit	Excess of revenue over expenses.
Loss	Excess of expenses over revenue / adverse reduction.
Gain	Incidental increase in economic benefit.
Purchases	Goods bought for resale.
Sales	Goods sold in ordinary trade.

Term	Meaning
Stock	Unsold goods held for resale.
Debtor	Person who owes money to business.
Creditor	Person to whom business owes money.
Bills Receivable	Written amount receivable in future.
Bills Payable	Written amount payable in future.
Receivables	Amounts expected to be collected.
Payables	Amounts required to be paid.
Cost	Resources sacrificed to produce/provide something.
Voucher	Documentary evidence of transaction.
Trade Discount	Invoice/list-price reduction not separately recorded.
Cash Discount	Settlement discount recorded in accounts.
Discount Received	Discount benefit received; income/gain.
Discount Allowed	Discount given to customer; expense/loss.
Depreciation	Periodic allocation/reduction in value/cost of depreciable asset.
Bad Debt	Irrecoverable receivable.
Solvent	Able to meet obligations.
Insolvent	Unable to meet obligations.
Debit	Left side/effect in double-entry.
Credit	Right side/effect in double-entry.
Account	Classified record relating to one item/person.

Deep Research - What Is Board Wording vs Modern Wording?

Topic	GSEB Exam Wording	Modern Concept Enrichment
Qualitative characteristics	Reliability, Relevance, Understandability, Comparability	IFRS: relevance + faithful representation are fundamental; comparability, verifiability, timeliness, understandability enhance usefulness
Accounting role	Recording + analysis + decisions	Modern texts emphasise accounting as an information system supporting decisions
Asset idea	Business resource with monetary/economic value	Modern frameworks focus on a present economic resource controlled by the entity
Accrual basis	Mercantile basis recognises period items	Also treated as a fundamental financial-reporting assumption in traditional ICAI framework

EXAM IMPORTANT

For the examination, write the GSEB terminology first. The modern column is included only to make the concept deeper and future-proof your understanding.

5-Minute Chapter Revision

Accounting: Identify -> Record -> Classify -> Summarise -> Analyse -> Report.

Objectives: Record, effect, factors, liabilities, receivables, profit, financial status, errors/fraud, decisions.

Advantages: Information, profit, position, tax, valuation, decision, evidence, comparison, control, correction.

Limitations: Non-financial, unstable money value, historical, market-value changes, estimates, mixed measurement bases.

Qualitative: Reliability, Relevance, Understandability, Comparability.

Core Terms: Capital, Drawings, Asset, Liability, Revenue, Expense, Debtor, Creditor.

Receivable: We have to receive. Payable: We have to pay.

Purchases: Goods bought for resale. Sales: Goods sold in trade.

Capital vs Revenue: Long-term/financing nature vs ordinary operating nature.

Mercantile: Record when earned/incurred. Cash: Record when cash moves.

Cycle: Voucher -> Identify -> Journal -> Ledger -> Trial Balance -> Final Accounts.

One-Page Master Revision Sheet

Topic	Must Remember
Meaning of Accounting	Systematic financial information process
Characteristics	7 core ideas
Objectives	9
Advantages	10
Limitations	6
Qualitative Characteristics	4
Users	12 categories in source
Capital	Owner -> Business
Drawings	Business -> Owner for personal use
Debtor	We receive
Creditor	We pay
Purchases	Goods for resale
Capital Expenditure	Long-term benefit
Revenue Expenditure	Current-period operating benefit
Trade Discount	Not separately recorded
Cash Discount	Recorded
Bases	Mercantile, Cash, Mixed
Accounting Steps	Voucher -> Identify -> Journal -> Ledger -> Trial Balance -> Final Accounts

Have You Mastered This Chapter?

- [ ] I can explain accounting without memorising the definition word-for-word.
- [ ] I can classify asset/liability/capital/revenue/expense.
- [ ] I can identify debtor and creditor instantly.
- [ ] I can distinguish capital and revenue items.
- [ ] I can explain all four qualitative characteristics.
- [ ] I can identify users and their information needs.
- [ ] I can explain mercantile and cash basis.
- [ ] I know the six-step accounting process.

CHAPTER 1 COMPLETE

Accounting and Its Terminology

SMIT SIR'S FINAL MESSAGE

Do not rush to debit and credit before you understand the language. First ask: What happened? What came in? What went out? Who owes us? Whom do we owe? Is it an asset, liability, capital, income or expense? Once those questions become automatic, Accounts becomes logical instead of scary.

Concept Enrichment Sources Consulted:
GSEB Class 11 Elements of Accounts (primary exam source)
NCERT Class 11 Accountancy - Introduction to Accounting
ICAI Framework for Preparation and Presentation of Financial Statements
IFRS Conceptual Framework for Financial Reporting

Smit Sir Commerce
www.smitsircommerce.in
info@smitsircommerce.com
6353709585