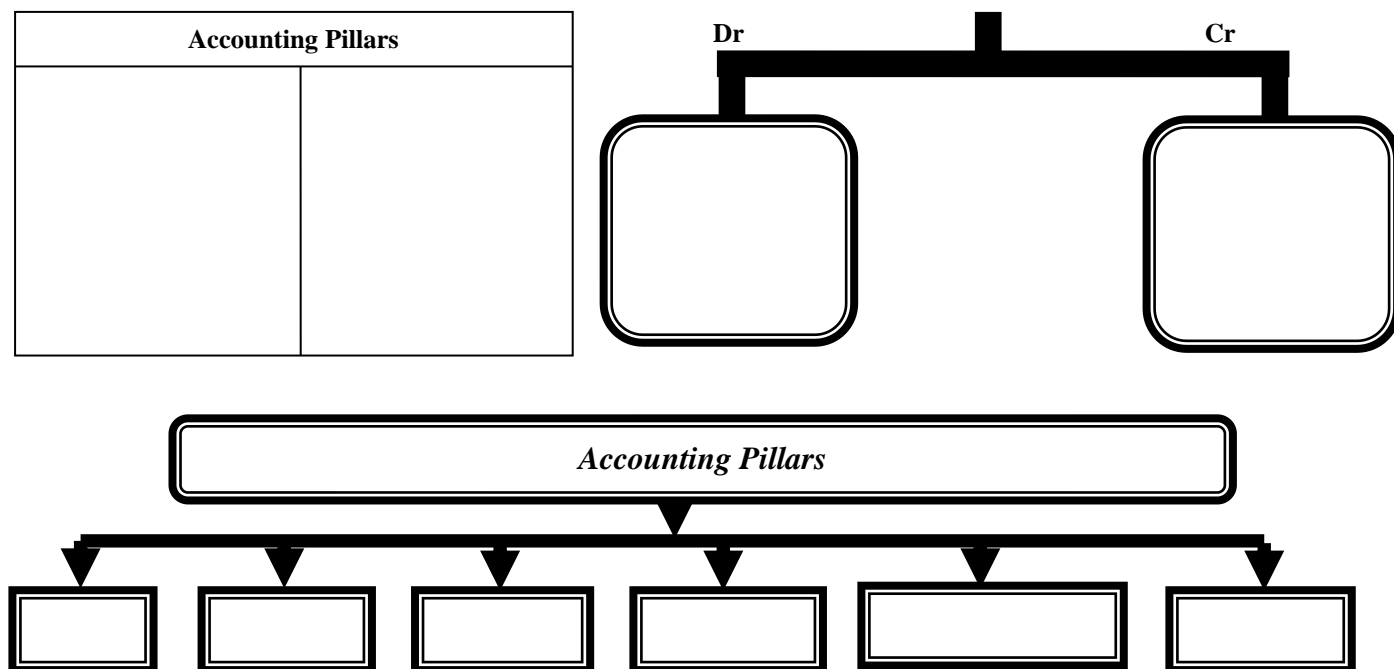


## TYPES of ACCOUNTS

There are six Accounting Pillars:



### 3.1 Assets



All Economic Resources of business organization. Assets are defined in Statement of Financial Accounting Concept 6 (SFAC 6); as *future economic benefits obtained or controlled by a particular entity as a result of past transactions or events* (Para. 25)

- A resource having economic value that an individual, corporation or country owns or controls with the expectation that it will provide future benefit
- It has four types, Tangible Assets, Intangible Assets, Natural Resources and Financial Assets

**Tangible Assets:** Machinery, Furniture, Building, Equipments, Plant, Car, Inventories, Fixture and Fittings, Computer, Books etc. etc.

**Intangible Assets:** Patents, Goodwill, Copy Rights, Trade Mark etc. etc.

**Natural Resources:** Land, Mines, Coal, Forest etc. etc.

**Financial Assets:** Cash, Note Receivables, Marketable Securities, Bank, Prepaid items, etc. etc.

### 3.2 Liabilities

- ✓ All Economic Obligations of business organization



Liabilities are defined by SFAC 6 as *future sacrifices of economic benefits arising from present obligations of a particular entity to transfer assets or provide services to other entities in the future as a result of past transactions or events* (Para. 35)

- ✓ Whenever a person purchases something on credit he promises to pay for the goods on a future date. This is his obligation to pay cash at a future date and thus it becomes his liability
- ✓ Liabilities are typically divided into two categories: short-term or Current Liabilities and Long Term Liabilities

**Current Liabilities:** Account Payable, Bank Overdraft/Overdrawn, Note Payable outstanding or payables, etc.

**Long Term Liabilities:** Bank Loan, Debenture, Bonds, Mortgage Loan etc. etc.

### 3.3 Drawing

- De-investment of the owner from business
- Drawing is defines as withdrawal made by owner in the form of cash and other assets for their personal use
- This will be reduce the owner equity account
- This is the case only sole proprietorship and partnership
- There is no drawing account in case of corporation. Drawing decrease owner equity in the business

### 3.4 Owner Equity

- Investment in the business by owner



According to SFAC 6 *the residual interest in the net assets of an entity that remains after deducting its liabilities* (Para. 49)

### 3.5 Expenses

- All Outflows of the business for earning



According to SFAC 6 as *outflows from delivering or producing goods, rendering services or carrying out other activities that constitute the entity's ongoing major or central operations* (Para. 80).

- Expenses are economic costs that a business incurs through its operations to earn revenue

Wages, Salaries, Rent, Octroi, Freight, Carriage, Stationery, Repairs, Carriage, Discount, Transportation, Commission and all accounts have debit balance (Dr) etc.

### 3.6 Revenue

- ❖ All inflows of the business.
- ❖  $\text{Revenue} = \text{Cost} + \text{Profit or (Loss)}$



According to SFAC 6 as *inflow from delivering or producing goods, rendering services or other activities that constitute the entity's ongoing major or central operations* (Para. 78)

- ❖ Revenue is the amount of money that a company receives from its operating activities in a given period, mostly from sales of products and/or services to customers
- ❖ It is not to be confused with the terms "profits" or "net income" which generally means total revenue less total expenses in a given period;  $\text{Profit} = \text{Revenue} - \text{Cost}$
- ❖ Revenue is calculated by multiplying the price at which goods or services are sold by the number of units sold

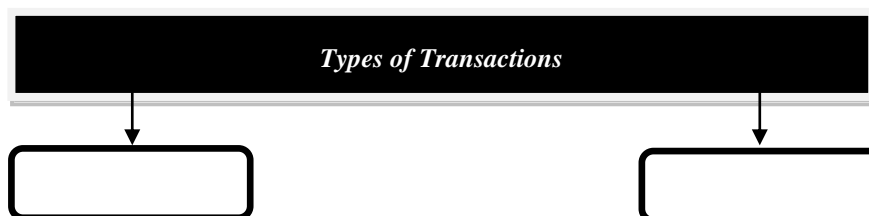
Sales, fees etc. and all accounts have credit balance like commission (Cr) etc.

### 3.7 Transactions

- Transactions are heartbeat of every business
- All economic activities are called transactions
- Any dealing between two persons involving money or a valuable thing is called transaction
- Every person cannot fulfill all his needs like food, clothing, housing etc. on his own. He, therefore, depends on other people to provide him with some of his needs

### 3.8 Forms of Transactions

- Translating every transaction in terms of money does not always mean that the money changes hands, the same time at which the transaction takes place. It may be paid before or after the goods are exchanged
- When the money value of an item being purchased is paid, at the same time the item is exchanged. The transaction is said to be a cash transaction
- On the other hand, if the payment is delayed to a future date, the transaction is termed as a credit transaction



### 3.9 Chart of Accounts

- Account is formal record that represents certain resources and claims to such resources, transactions or other events that result in changes to those resources and claims
- Chart of accounts is a list of ledger account names and numbers arranged in the order in which they appear in the financial statements
- The chart serves as a useful source for locating a given account within the ledger. The numbering system for the chart of accounts must leave room for new accounts. A range of numbers is assigned to each financial statement category

**Example # 3.1:** For each of the following, write Accounting Pillars and Normal Balance?

<b>S.no</b>	<b>Items</b>	<b>Accounting Pillars</b>	<b>Normal Balance</b>
1	Cash		
2	Accounts Payable		
3	Income Taxes		
4	Stock		
5	Transportation cost		
6	Prepaid Rent		
7	Sales		
8	Note Payable		
9	Bill Receivables		
10	Salary Outstanding		
11	Rent and Taxes		
12	Common Stock		
13	Sundry Debtors		
14	Commission (cr)		
15	Leasehold Land		
16	Utility Bills		
17	Other Income		
18	Land and Building		
19	Insurance Premium		
20	Payable and Outstanding		
21	Owner Invested Machinery		
22	Drawings		
23	Bank Charges		
24	Salaries received		
25	Fuel Expense		
26	Loan to Employees		
27	Bank Account		
28	Wages earned		
29	Marketable Securities		
30	Unearned Revenue		

### Practice MCQs

[www.accountancyknowledge.com/types-of-accounts-mcqs/](http://www.accountancyknowledge.com/types-of-accounts-mcqs/)

### Practice Problems with Solutions

[www.accountancyknowledge.com/types-of-accounts-problems-and-solutions/](http://www.accountancyknowledge.com/types-of-accounts-problems-and-solutions/)