Key Terms

Accrual Basis:
Under this basis, the effects of transactions and other events are recognised when they occur (and not as cash or a cash equivalent is received or paid) and they are recorded in the accounting records and reported in the financial statements of the periods to which they relate.

Going concern assumption
According to this assumption, the enterprise has neither the intention nor the need to liquidate or curtail materially the scale of its operations; if such an intention or need exists, the financial statements may have to be prepared on a different basis and, if so, the basis used is disclosed

Income
Income is increase in economic benefits during the accounting period in the form of inflows or enhancements of assets or decreases of liabilities that result in increases in equity, other than those relating to contributions from equity participants.

Receipt
Receipt is the inflow of cash and every inflow of cash is not an income. A company receives money for several reasons: Capital, Loan, Donations, Sale of assets, Advance

Expense
Expense is decrease in economic benefits during the accounting period in the form of outflow or reduction of assets or decreases of liabilities that result in decreases in equity, other than those relating to distribution to equity participants.

Loss
Losses represent decreases in economic benefits and as such they are no different in nature from other expenses. Following are some of the common losses that appear in the income statement: Bad debt, Loss due to theft, Loss of stock due to fire or natural calamities, Loss on the sale of non-current assets

Recognition of Expense
Expenses are recognised in the statement of profit and loss when a decrease in future economic benefits related to a decrease in an asset or an increase of a liability has arisen that can be measured reliably.

Profit
Profit is the excess of income over the expenses for a period. Profit for the period is determined using the accrual principle and matching principle. According to the matching principle, revenue for a period should be compared with the corresponding expenses.

Revenue or Sales

Revenue represents sale of products and services produced or traded by an enterprise. These are usually recorded at gross value, including excise duty if any. When an organisation provides services or sells goods it receives cash immediately or receives commitment to be paid on some future date.

Revenue Expenses

Revenue expense are those transactions (reduction of assets or increase in liabilities) the benefit of which expires within an accounting period. The accounting period may be a year, half year, quarter, or a month.

Cost of Goods Sold/Consumed (COGS)

According to the matching concept, when the goods are sold, the corresponding cost will be treated as an expense and it is called cost of goods sold (COGS). Cost of goods consumed is arrived at after making suitable adjustments for opening and closing stocks.

Last-in-first-out (LIFO).

Under this method the goods purchased last will be used first. So the unsold stock is generally from the past purchases or the opening stock.

First-in-first-out (FIFO):

Under this method, the oldest purchase is used first. So the unsold stock is from the latest purchases.

Cost of Production

Income statement will not show the cost of production as a separate item. However, one can calculate the cost of production by collecting the relevant information. Cost of production includes raw material cost, energy, salaries and wages etc. and other operating expenses.

Borrowing Cost

According to the Accounting Standard -16, borrowing costs are interest and other costs incurred by an enterprise in connection with the borrowing of funds.

Depreciation

Depreciation is the charge for using the assets. It can be described as the cost of the assets used during the year. Depreciation is the wear and tear of the asset. It is the decrease in the value of the asset with the passage of time. Depreciation is the allocation of the cost over the life of the asset. Depreciation will be shown as an expense in the income statement and as reduction in the value of the asset in the balance sheet.

Straight Line Method (SLM)

In the SLM, depreciation is determined by allocating the cost over the life. The total cost of the asset less salvage value, if any, will be distributed over the life of the asset.

Reducing Balance Method
In the Reducing balance method (RBM), depreciation is calculated on the opening balance of the asset or in other words, it is calculated on the written down value of the asset. Written down value of the asset is cost of the asset less the accumulate depreciation. In this method, the amount of depreciation goes on reducing over the life.

Bad Debts:
When a company extends credit to customers, there is always the risk of not getting the amount. Bad debt is the loss due to the non-payment by the customers.

Provisions for Bad and Doubtful Debts
Sometimes companies keep aside a part of the current profit to meet future bad debt. Such amount kept aside is called provisions for bad and doubtful debts.

Appropriation of Profit
Appropriation of profit is the distribution of profit. Profit after tax (PAT) is available for distribution among the shareholders as dividend. However, the management is under no obligation to distribute the profit. Profit appropriation statement, which is generally incorporated in the income statement, shows the profit retained for reinvestment, profit distributed as dividend, tax on dividend distributed, profit transferred to some specific reserves.

Earning Per Share
Profit after tax if distributed over the number of share, it is called earning per share (EPS).

Basic EPS
Basic earnings per share should be calculated by dividing the net profit or loss for the period attributable to equity shareholders by the weighted average number of equity shares outstanding during the period.

Diluted EPS
For the purpose of calculating diluted earnings per share, the net profit or loss for the period attributable to equity shareholders is divided by weighted average number of shares outstanding during the period.