

## 1. Liabilities: -

- The amount payable in future for value received now is called Liability.
- Liabilities are obligations or debts that an enterprise has to pay at some time in the future.
- They represent creditors' claims on the firms' assets, or we can say that they are the claims of those who are not owners. They can be expressed as:

**Internal Liability.** The amount owed by the business to the owner of the business is termed as internal liability. It is so because under the Business Entity Concept, transactions are recorded taking business to be an entity distinct and separate from its owners. It is represented in the Balance Sheet as capital and free reserves.

**External Liability.** A liability that is payable to outsiders, other than the owner is termed as external liability. It arises because of credit transactions or loans raised. For example, creditors, bank overdraft, bills payable, outstanding expenses.

Liabilities can be further classified into the following:

**Current Liabilities.** Current Liabilities are those liabilities which are to be paid in near future (normally within one year). It is held primarily for the purpose of being traded. For example, bank overdraft, bills payable, outstanding expenses, short-term loan etc.

**Non-current Liabilities.** Non-current liabilities are those liabilities which are not current liabilities. Such liabilities are usually payable relatively after a long period. For example, long-term loan, debentures,

public deposits, etc.

- a) **Fixed liabilities:** The liabilities which are to be paid after a very long period usually when the business is closed are termed as fixed liabilities. Owners capital, irredeemable preference shares, irredeemable debentures come under this category.
- b) **Long term liabilities:** The liabilities which are payable after one year usually within 5-10 years are called long term liabilities. These are debentures & long term loans.
- c) **Current liabilities:** The liabilities which are payable within one accounting year are called current liabilities. These are paid out of current assets. It includes sundry creditor, bills payable, short term loans, outstanding expenses, etc. Current liabilities can be further sub-divided into:
  - ✓ **Quick liabilities:** The current liabilities which are payable within *one month* are termed as quick liabilities or liquid liabilities. Bills payable due within one month, some creditors & outstanding expenses are usually considered as quick liabilities.
  - ✓ **Deferred liabilities:** The current liabilities which fall due after one month but within one year are termed as deferred liabilities. Bills payable & creditors due after one month come under this category.

**2. Assets.** Assets are the properties possessions or rights owned by a business which has monetary value. Assets are economic resources of an enterprise that can be usefully expressed in monetary terms. They are those resources that the business owns. These are the items of value used for the operations of the business enterprise and also includes the amount due to it from others. Some of the examples of assets are money owing by debtors, stock of goods, cash, furniture, machines, building, etc.

Assets can be broadly classified into:

✓ **Non-current Assets.** Non-current Assets are those assets which are kept in the business for continued use for the purpose of production goods or services. These assets are held for a long period of time and are not meant for resale. Long-term investments, and fixed assets like Land & Building, Plant & Machinery, Furniture etc., are examples of Non-Current Assets.

✓ **Fixed Assets.** Fixed assets are those non-current assets which are acquired and intended to be retained permanently in the business for the purpose of carrying on a business.

*Fixed assets are further classified into*

✓ **Tangible Assets.** Those fixed assets, which have their real existence and can be seen and touched are tangible assets *e.g.*, Plant & Machinery, Motor Vehicle, Land & Building etc.

✓ **Intangible Assets.** Intangible assets are those which cannot be seen and touched but we can feel from the results. For example, Goodwill, trademarks, Patents, Copyright etc.

✓ **Wasting assets:** the fixed assets whose value decreases with successive extraction of material from them are termed as wasting assets. Mines, quarries, oil well, heaps, forest etc. come under this category.

✓ **Current Assets.** Current assets are those which are held on a short-term basis with the intention of converting them into cash during the normal business operations of the company. Examples of such assets

are cash in hand cash at bank, bills receivable, sundry debtors, stock, readily realizable securities, advance payment prepaid expenses etc. These are classified as:

On the basis of **liquidity** current assets can be divided into two sections.

- **Liquid assets:** The assets which are in the form of cash or can be converted into cash immediately without appreciable loss are termed as current assets. It includes cash in hand, cash at bank, bills receivable, debtors & investments in gilt edge securities.
- **Non liquid assets:** The assets which cannot be converted into cash without appreciable loss are termed as non-liquid asset 'stock' come under this head.
- a) **Fictitious assets:** the written off portion a deferred revenue expenditure or loss is termed as fictitious assets. Examples of such assets are preliminary expenses, discount on issue of shares & debentures, heavy advertisement expenditure, debit balance of profit & loss account etc. Fictitious means not real. Total of such expenditure or loss is charged to profit & loss account in the year of occurrence the net profit of that year will be unduly less. Therefore, only a part of it is charged to profit & loss account every year & the balance is shown in the balance sheet till it is written off completely.

### ***EXPENDITURE.***

Expenditure may be defined as, money spent or liability incur for some benefit, service or receiving property. Some of the examples of expenditures are—payment of rent, salary, purchase of goods, purchase of machinery, purchase of furniture, etc. Expenditure may be classified into:

***Capital Expenditure.*** Those expenditures which are incurred for acquiring fixed assets like building, machinery, furniture, etc. are

referred to as capital expenditure, and are shown in the balance sheet as assets.

**Revenue Expenditure.** Those expenditures which are incurred in the current year and the benefit of which is also taken in the same accounting period. These expenditures do not result in the income of the firm. All revenue expenditures are termed as expenses.

## **RECEIPTS**

The amount received or receivable for selling goods, assets or services is termed as receipt. Receipt can be

**Capital Receipt.** It is the amount received or receivable for selling assets. For example, sale of building, machinery, furniture etc.

**Revenue Receipt.** It is the amount received or receivable against sale of goods or services *i.e.* the receipt on account of business transactions.