

Asset and liability basics

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Knowledge of accounts can make life much easier. If you are to invest in a new business or joining your forefather's business, planning to take some loan, looking for job in any marketing company, desire to be the manager of a multinational company or have the onus to manage your own assets and liabilities, knowing some basics of accounts becomes mandatory.

Broadly, accounting is bifurcated into two categories-

Cash Bases Accounting

Accrual Accounting

The Cash Based accounting pertains to the management of an individual's personal monetary transactions. In this case, he keeps a track of the money he withdrew, deposited, gave or received from someone etc. This accounting comes to life when actual cash transactions take place.

The Accrual Accounting requires an accountant who notes the transactions even if no money has been actually exchanged. This method works on the principle of comparing or seeing the ratio of the expenses to expenditure. If the expenditure is more, you need to cut down your luxuries, if not then it's always good to have some savings for future. This type of accounting tells you the amount that you owed; this might not match with the figure of your bank balance.

In the language of accounting there are several key terms that one needs to be familiar with. Some of the crucial ones are discussed below-

The Assets- the assets are generally those possessions of an individual that have a good market value or are quite valuable. Assets are mainly classified into three types-

Current Asset- the cash is the most basic asset of any individual. The money that is being held in accounts like the checking and savings accounts is also included in the cash. Also inclusive are the marketable securities in the form of bonds, stocks, shares etc. The money lent or payments due from clients even form a part of it.

Fixed Asset- comprises of all the tangible valuable things like property, machines, equipments, land and the like that are not meant to be sold.

Intangible Asset- incorporates all the intouchable things like copyrights, patents, and trademarks etc. that have tremendous monetary significance.

The law of opposites governs the nature; where there are assets, there will be liabilities. These are the debts that you have to pay back to your creditors. This can be done through giving cash or any other asset like jewelry, some other goods etc. Liabilities again are of two kinds-

1. The Current Liabilities- the liabilities that are to be paid back within a certain time limit and most often through your current assets. These include the accounts payable i.e. type of bill that you have to monthly, the Notes Payable-loans taken from banks meant to be repaid within 30 days and the Accrued Expenses- the compulsory expenses like taxes, wages, interests etc. where the bills are not received but the balances of each must be repaid.
2. Long Term Liabilities- those debts that can be repaid at ease for the tenure is more than a month.

The Financial Capital- is the economic capital. It is any liquid medium or merchandise that stands for wealth or other styles or capital. There are four ways to manage and display the financial capital. First, this capital is needed when a contract is made with any sort of capital asset. The financial instruments work in the form of currency in case of sale, purchase or trade of goods i.e. the medium exchanges. Second, it works as a settled medium or mode like gold for the Standard of Deferred Payment. Third, The Unit of Account has a market value attached to it which in turn varies with the economy of the country. Fourth, The Source of Value is concerned with financial capital that needs to be saved and recovered. It is a collection of things like gold, real estate, collectibles etc.

Petty Cash is an important factor in business. It is the smallest account within a business setting or the cash in bills and coinage required to pay little expenses.

Types of Business- there are several kinds of business one should be aware of like

Sole proprietorship- where a single individual who starts the business owns it too.

Partnerships- the companies or businesses started by two or more persons where they conjointly own it.

Corporations- involve lot many shareholders or investors who are responsible in taking decisions for the company.

Limited Liability Companies- can be said to be sisters of corporations. Here the business members are not under a legal obligation to pay the debts if the business fails.

Payrolls- the term payroll designates the manner in which you will be paying the employees of your company and even yourself. Many multinational companies cater to payroll service provider companies that do the work quite efficiently.

These are some of the broad guidelines that will help you grasp the basics of accounting. It is essential to have some such wisdom for accounts as it is fruitful in all walks of life.

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