

chapter - 6

Rules of Debit and Credit

Using Debit and Credit:

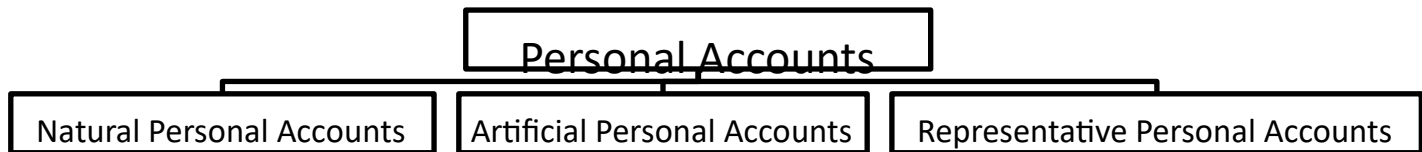
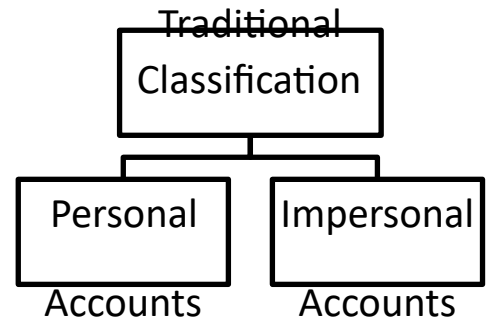
As already stated every transaction involves give and take aspect. In double entry accounting, every transaction affects and is recorded in at least two accounts. When recording each transaction, the *total amount debited must equal to the total amount credited*. In accounting, the terms — *debit* and *credit* indicate whether the transactions are to be recorded on the left hand side or right hand side of the account. In its simplest form, an account looks like the letter T. Because of its shape, this simple form called a T-account. Notice that the T format has a left side and a right side for recording increases and decreases in the item. This helps in ascertaining the ultimate position of each item at the end of an accounting period. ➤ **Rules of Debit and Credit:**

Classification of Accounts:

Accounts can be classified in two ways: **(a) Traditional Classification:** and **(b) Modern Classification.**

(a) Traditional Classification:

1. Personal Accounts: Accounts which relate to persons, i.e., individuals, firms, companies, debtors or creditors, etc. are Personal Accounts. Ex. of Personal A/c are the account of Mohan & Co., a customer (Debtor).



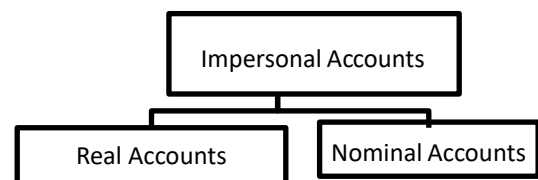
Personal Accounts can be classified into three categories:

- (i) **Natural Personal A/c's:-** The term Natural Person means persons who are creations of God. Therefore, these will include accounts in individual name. Like Sita s A/c, Mohan s A/c, etc.
- (ii) **Artificial Personal A/c's:-** These accounts include accounts of corporate bodies or institutions which are recognised as person in business dealings. Like then account of a limited company, the account of a club etc.
- (iii) **Representative Personal A/c's:-** These are accounts which represent a certain person or a group of persons. Like if rent is due to the landlord, an Outstanding Rent Account will be opened in the books.

Rule of Debit and Credit - Debit the receiver, Credit the giver.

2. Impersonal Accounts: Account which are not personal such as Machinery A/c, Furniture A/c, Cash A/c etc. are termed as Impersonal Account. These can be further subdivided into two accounts;

(a) Real A/c's: Real accounts are the accounts which relate to tangible or intangible assets of the firm (excluding debtors. **Tangible assets like** – Building, Land, Plant and Machinery and Investment, Cash in hand or stock. **Intangible assets like**- Patents, Trademark and Goodwill.



Rule of Debit and Credit - Debit what comes in, Credit what goes out.

(B) Nominal (Revenue or Expense) Accounts:- Accounts which relate to expenses , losses, gains, revenue, etc. are termed as Nominal Accounts. These are Rent A/c, Salary A/c, Sales A/c, Commission Received A/c etc.

Rule of Debit and Credit - Debit all expenses and losses, Credit all incomes & gains

B. Modern Classification:-

Under this classification, all the accounts are classified into the following five categories.

1. Asset Accounts. 2. Liability Accounts. 3. Capital Accounts. 4. Revenue Accounts. 5. Expense Accounts.

1. Asset Accounts: Asset accounts are those accounts which relate to the economic resources of an enterprise such as Plant & Machinery, Land & Building etc.

Rule of Debit and Credit - Debit the increases, Credit the decreases.

2. Liability Accounts: - Liability accounts are accounts of lenders, creditors for goods, outstanding expenses, etc.

Rule of Debit and Credit - Debit the decreases, Credit the increases

3. Capital Accounts: - These are the accounts of proprietors/partners who have invested amount in the business. It includes both Capital and Drawings Account.

Rule of Debit and Credit - Debit the decreases, Credit the increases

4. Revenue Accounts: - These are accounts of incomes and gains. Examples are - Sales, Discount received, Interest received, bad debts recovered etc.

Rule of Debit and Credit - Debit the decreases, Credit the increases

5. Expense Accounts: - These are the accounts of expenses or losses incurred in carrying the business. Examples are: Purchases, Wages, Salaries Discount allowed etc.

Rule of Debit and Credit - Debit the increases, Credit the decreases.

S/No.	Name of the Account	Nature of the A/c	Side in which Increase will be recorded
1.	Cash	Asset	Debit
2.	Creditors	Liability	Credit
3.	Bank loan	Liability	Credit
4.	Stock	Asset	Debit
5.	Rent Received	Income/ Revenue	Credit
6.	Salary Paid	Expenses/ losses	Debit
7.	Salary Payable	Liability	Credit
8.	Rajan (Owner)	Capital	Credit
9.	Suman (Debtor)	Asset	Debit
10.	Sharan (Customer)	Asset	Debit
11.	Purchase	Expenses/ losses	Debit
12.	Sales	Income/ Revenue	Credit
13.	Interest Payable	Liability	Credit
14.	Accrued Commission	Asset	Debit
15.	Drawings	Capital	Credit
16.	Discount received	Income/ Revenue	Credit
17.	Depreciation	Expenses/ losses	Debit