# Learn ACCOUNTING RULES

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Debit and Credit are two actions ot two sides, that have opposing
nature, but are relevant and important to the process of accounting.


Debit is the gaining side of a transaction and Credit is the Loosing side in the same.

If it compared with mathematics, Debit is related to “addition”
and Credit is related to “subtraction”.

# DEBIT & CREDIT

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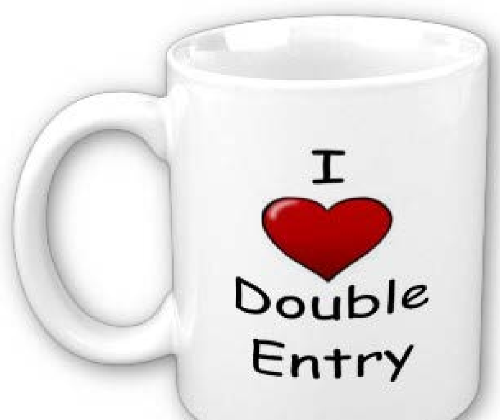
**An ‘Account’ in an accounting transaction is either debited or credited depending on the nature of the account and the rule applicable.**

## DOUBLE ENTRY SYSTEM

A **double-entry bookkeeping system** is a set of rules for recording financial information in a financial accounting system in which every transaction or event changes at least two different nominal ledger accounts.



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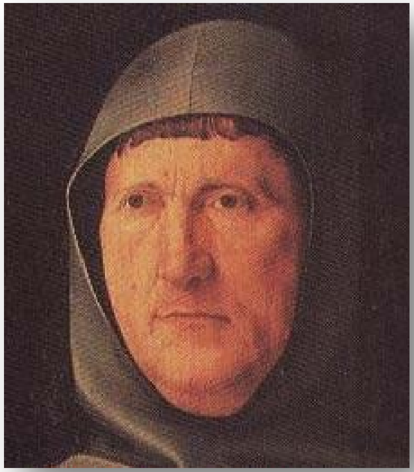
It was first codified in the 15th century by

**Luca De Pacioli.**

In deciding which account has to be debited and which account has to be credited, the golden rules of accounting are used.

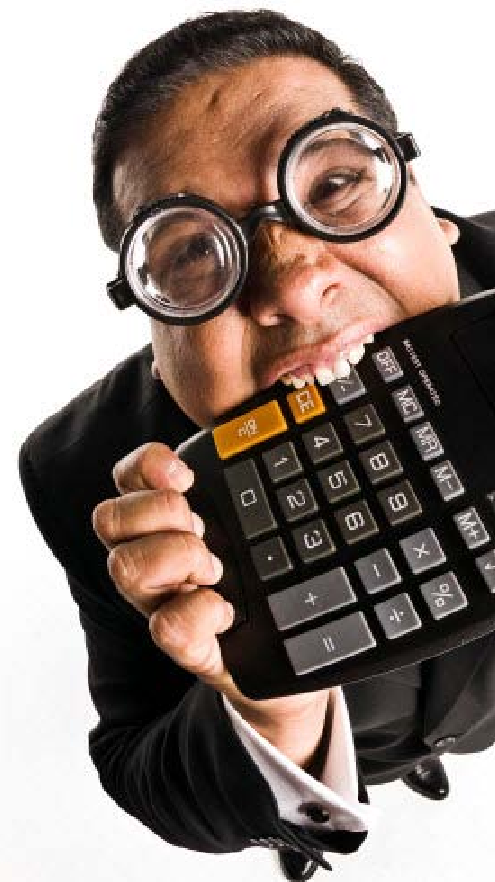


In modern accounting this is done using debits and credits within the accounting equation:

**Capital = Assets - Liabilities.**

The accounting equation serves as an error detection tool. If at any point the sum of debits does not equal the corresponding sum of credits, an error has occurred. It follows that the sum of debits and the sum of the credits must be equal in value.

Double-entry bookkeeping is not a guarantee that no errors have been made - for example, the wrong ledger account may have been debited or credited, or the entries completely reversed.



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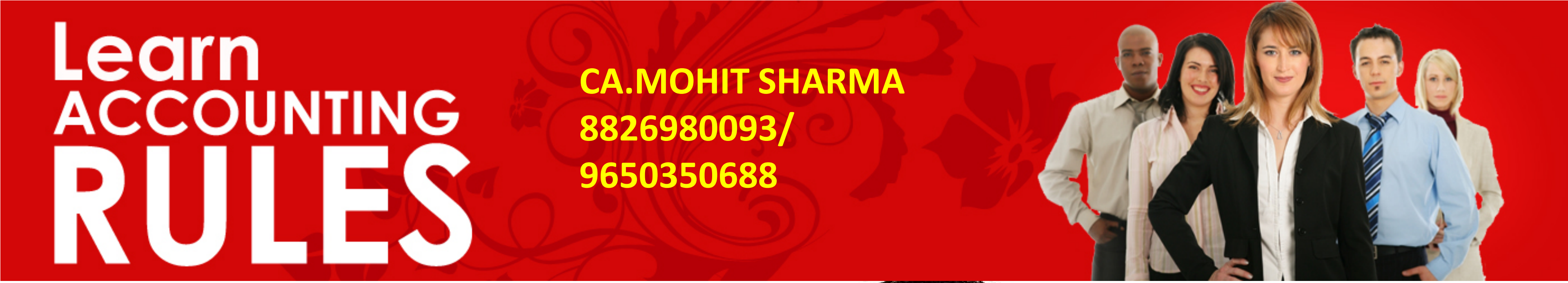
# Dual aspect concept

Every Debit transaction should have equal and correspondent Credit transaction,
And every Credit transaction should have equal and correspondent Debit transaction.

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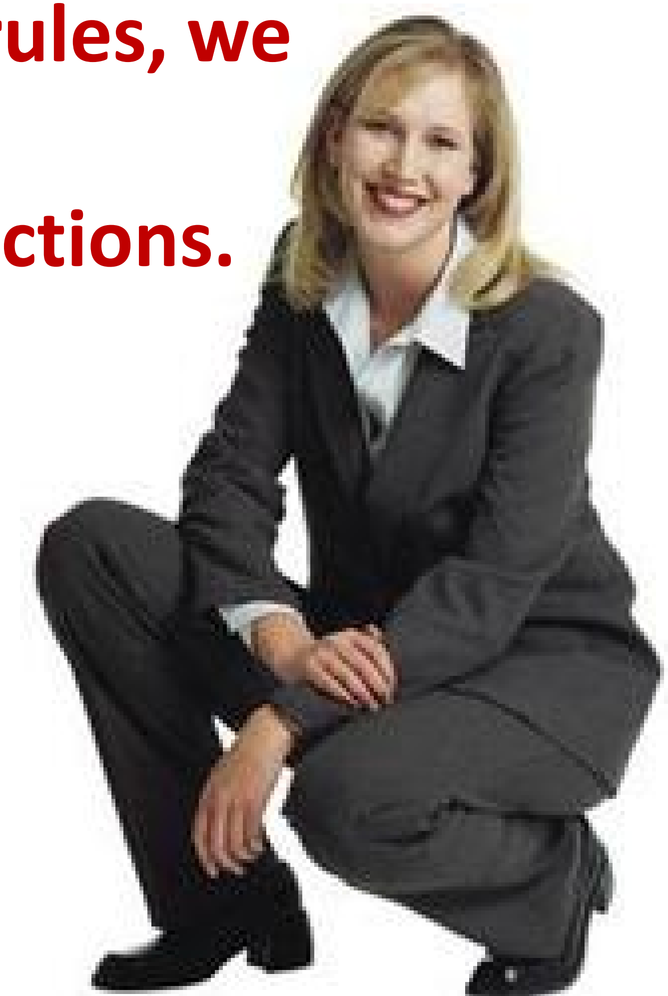
Before applying the accounting rules, we have to find out
'two accounts', from each transactions.
Generally there are two
accounts in every transaction.



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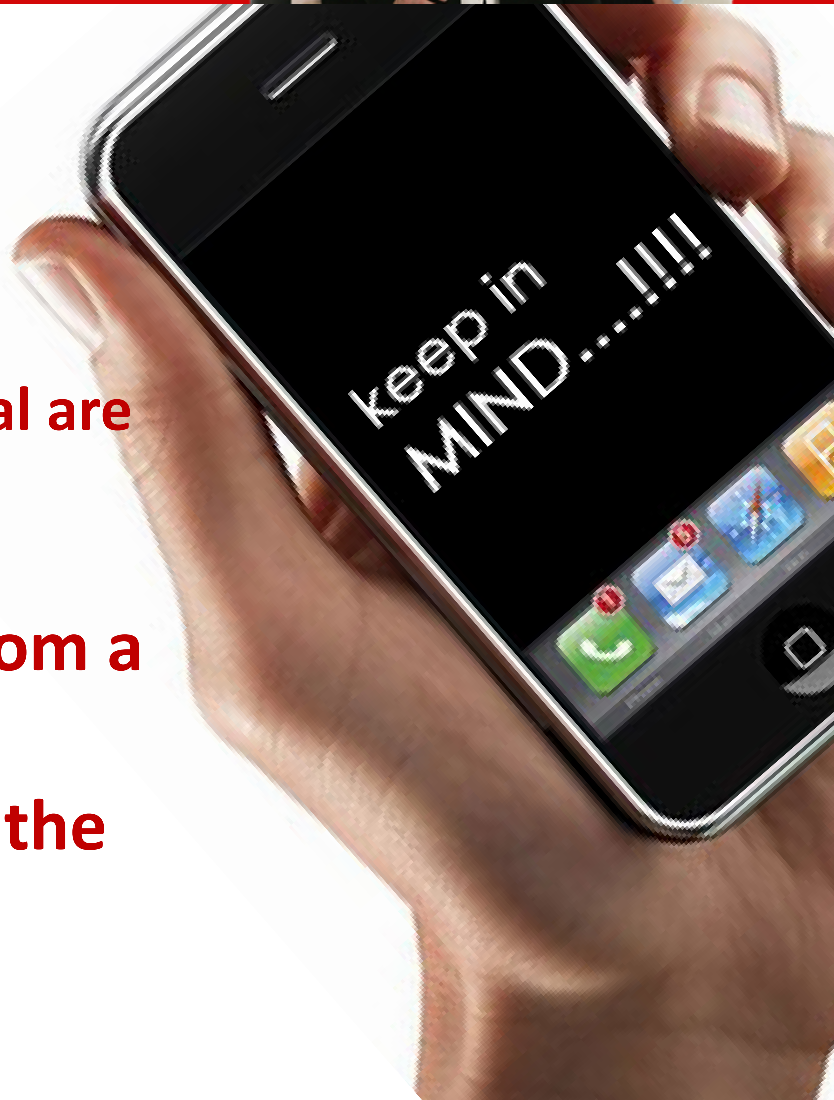
For example:
Introduced Capital for Rs. 50000/-

In the above transaction Cash and Capital are two accounts.




**(While finding out two accounts from a transaction,
be sure that account may effect in the financial character
of the firm)**

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Once we identified the two accounts from a transaction, the next step is to find out the nature of that identified account.

For example:

| | | |
|---|---|---|
| Cash | - | Asset |
| Capital | - | Liability |
| Salary | - | Expenses |
| Discount received | - | Income |
| Sales | - | Income |
| Purchase | - | Expense |

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# ACCOUNTING

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It's easy to find out which accounting rule is applicable for an 'account ' while converting a transaction into Journal entry format

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**REAL ACCOUNT**- If an account in a transaction found ‘**ASSET**’, then you can use this rule.

**NOMINAL ACCOUNT**- If an account found ‘**Expense**’ **or** ‘**Income**’, we use this rule

**PERSONAL ACCOUNT**- If an account found any ‘**Individual or Organization Name**’, we use this rule

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Format of a Journal entry

(debit side)
______________________ A/c Dr. xxxx

To, (credit side) _________________ A/c xxxx

**In the above journal format, we have to fill up the blank areas. One is a Debit Side and the other is a Credit side. Accounting Rules provide information about, what should be debited and what should be Credited.**

What should be Debited and Credited, according to the rule……..????

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# REAL ACCOUNT

DEBIT the Asset what comes in.

CREDIT the Asset what goes out.

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## FOR EXAMPLE:

# Purchased Furniture.

Here, the asset came into business is ‘FURNITURE’, by giving ‘CASH’(as nothing specified specially). The two Accounts are Furniture and Cash(both are assets and Real account rule is applicable)

Entry will be,

| | | | |
|---|---|---|---|
| Furniture Account | Dr. | XXXX | |
| To, Cash Account | | | xxxx |

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# NOMINAL ACCOUNT

DEBIT all EXPENSES OR LOSSESS

CREDIT all INCOMES OR PROFITS

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## FOR EXAMPLE:

# Paid Salary.

Here the two accounts are Salary and Cash (being cash is paid as salary). Salary is an expense account and that's why Nominal account is applicable. Cash is an asset, and Real account rule should apply. And you can apply any of the two accounting rules, i.e. Real & Nominal.

Entry will be,

| | | | |
|---|---|---|---|
| Salary Account | Dr. | XXXX | |
| To, Cash Account | | | xxxx |

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# PERSONAL ACCOUNT

DEBIT the RECEIVER

CREDIT the GIVER

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## FOR EXAMPLE:

# Received cash from Arun.

Here the two accounts are cash and Arun (as it is a name indicates an individual). Therefore Arun's account comes under Personal Account. And he is the 'giver' in the transaction as we receive the cash. So his account has to Credited as per the rule.

Entry will be,

| | | |
|---|---|---|
| Cash Account | Dr. | XXXX |
| To, Arun Account | | xxxx |

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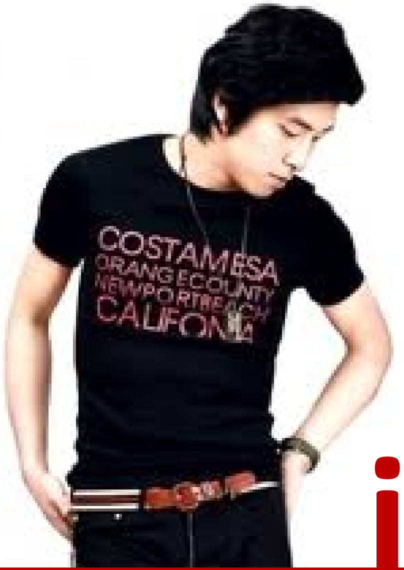


## in SHORT

**Step 1 :** Find out the accounts (minimum two)

**Step 2 :** Find out the account's nature.

**Step 3 :** Find, which rule is applicable for accounts.

**Step 4 :** Post it into Journal formats.

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# It’s so simple
# To be accounting…!!!!

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