1. Details of Module and its structure

Module Detail	
Subject Name	Accountancy
Course Name	Accountancy 01 (Class XI, Semester - 1)
Module Name/Title	Rules of Debit and Credit – Part 3
Module Id	keac_10303
Pre-requisites	Basic knowledge of Accountancy Cycle, Accountancy Concepts and Accountancy Equation
Objectives	After going through this lesson, the learners will be able to understand : • Types of Accounts • Use of Rules of Debit and Credit • Impact of Debit and Credit on Business Transactions
Keywords	Debit and Credit

2. Development Team

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Introduction

In double entry system of accounting, each transaction affects at least two accounts, one of which is debited and the other is credited. While recording it is important that the total amount debited must equal to the total amount credited. In accounting the terms *debit and credit* indicate if the transaction is 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** and is called a 'T-account'. This 'T-format' has a left side and a right side for recording increase or decrease in the element. This helps in ascertaining the exact position of each element at the end of an accounting period. In a T-account, left side is called debit (abbreviated as Dr.) and the right side is known as credit (abbreviated as Cr.).

Dr, …. Account Cr.

A business performs various transactions in day-to-day operations. Such transactions may be related to persons (Suppliers, Customers, Employees etc.), Goods (Purchases, Sales and returns etc.), Assets (Purchase of assets, Sale of assets, Depreciation etc.), Expenses (Salary, Interest paid, Commission paid etc.) and Income (Commission received, rent received etc.).

There may be numerous accounts which an accountant has to deal with. For the purpose of convenience and uniformity, accounts have been classified into various types. These types are also based upon two approaches:

Modern Approach/Accounting Equation Approach

In modern approach of accounting, all accounts are divided into five categories for the purposes of recording the transactions. These are:

- **Asset**: Assets are economic resources of an enterprise that can be usefully expressed in monetary terms. Assets are items of value used by the business in its operations. Assets can be broadly classified into two types: Non-Current Assets and Current Assets.

Non-Current Assets **a**re assets held on a long-term basis, such as land, buildings, machinery, plant, furniture and fixtures. These assets are used for the normal operations of the business.

Current Assets are assets held on a short-term basis such as debtors (accounts receivable), bills receivable (notes receivable), stock (inventory), temporary marketable securities, cash and bank balances.

- ***Liabilities:*** These are obligations or debts that an enterprise has to pay at some time in the future. They represent creditors' claims on the firm's assets. These can be further be divided into two parts: Non-Current Liabilities and Current Liabilities.

Non-Current Liabilities are payable after a period of more than one year from the date of balance sheet. For example:- long term locus debenture & likes.

Current Liabilities are payable in relating short periods, normally not more than 12 months from the date of balance sheet. For example :- creditors bank overdraft & short term loan etc.

- ***Capital:*** Amount invested by the owner in the firm is known as capital. Capital is an obligation and a claim on the assets of business.

- ***Revenues:*** These are the amounts of the business earned by selling its products or rendering services to customers. It is also known as Sales Revenue. Other items of revenue common to many businesses are: commission, interest, dividends, royalties, rent received, etc. Revenue is also called income.

- ***Expenses:*** Costs incurred by a business in the process of earning revenue are known as expenses. Generally, expenses are measured by the cost of assets consumed or services utilized during an accounting period. The usual items of expenses are: depreciation, rent, wages, salaries, interest, light and water, telephone bills, etc.

Two fundamental rules are followed to record the changes in these accounts:
For recording changes in Assets/Expenses (losses)

(i) Increase in Asset is Debited and Decrease in Asset is Credited

(ii) Increase in Expenses (Losses) is Debited and Decrease in Expenses (Losses) is

Credited

For recording change in Liabilities, Capital and Revenue (Gains)

(i) Increase in Liabilities is Credited and Decrease in Liabilities is Debited

(ii) Increase in Capital is Credited and Decrease in Capital is Debited

(iii) Increase in Revenue (Gains) is Credited and Decrease in Revenue (Gains) is Debited

It can be summarized in the following table:

Rules of Debit and Credit

Type of Account	In case of Increase	In case of Decrease
Assets	Debit	Credit
Expenses (Losses)	Debit	Credit
Liabilities	Credit	Debit
Capital	Credit	Debit
Revenue (Gains)	Credit	Debit

Now let us take some accounts and find its nature on the basis of Modern Classification of accounts:

(i)	**Land and Building**	**Assets**
(ii)	**Purchases**	**Expense**
(iii)	**Sales**	**Revenue**
(iv)	**Creditors**	**Liability**
(v)	**Rahul**	**Capital**
(vi)	**Cash**	**Assets**
(vii)	**Salary**	**Expenses**
(viii)	**Commission Received**	**Revenue**
(ix)	**Loan from Bank**	**Liability**
(x)	**Money withdrawn by Owner**	**Capital (Drawings)**
(xi)	**Computer Software**	**Assets**
(xii)	**Postal Charge**	**Expenses**
(xiii)	**Discount Received**	**Revenue**
(xiv)	**Outstanding Wages**	**Liability**
(xv)	**Interest on Capital**	**Capital**

Traditional approach

Under this approach, accounts have been divided into two categories personal and impersonal accounts.

Personal account: Personal accounts include the accounts of persons with whom the business deals. These are further categorized in three types:

Natural personal account: Those accounts which are related to human beings or natural persons. The 'natural person' means those persons who are the creation of God e.g. Ram's Account, Shyam's Account, Sudhir's Account, Mona's Account, Jyoti's Account etc.

Artificial personal account: These include accounts related to organizations (body corporate, co-operative society, club etc.) which are considered as a person in business dealings. These organization have right to buy/sell goods or any asset and it can sue or be sued in its own name as in the case of natural person. Such as accounts of Bank, Schools, Universities, Hospitals, Cooperative societies etc.

Representative personal account: Sometimes, special accounts are opened to represent a person or group of persons. For example, Salary due to an employee, an outstanding salary account will be opened in the books. Outstanding salary a/c represents the employee to whom salary is due. Similarly, 'Dividend due but not paid' represents the number of shareholders to whom dividend is payable.

Impersonal account: All other accounts except personal accounts are classified under Impersonal accounts. The impersonal accounts may further be classified under two categories:

Real accounts: Real accounts may be of the following types:

Tangible real account: Those which relate to such things which have physical existence i.e. it can be seen, touched, felt and measured. For example, Stock Account, Machinery Account, Computer Account, Furniture Account etc.

Intangible real account: This type of accounts includes those rights or intellectual properties which do not have any physical existence but can be measured in terms of money. For example, Computer software, Patents, Copyright, Patents, Trademark etc.

Nominal account: These accounts relate to business expenses, losses, gains and incomes. These are the accounts which do not really exist but these are given name on the basis of purpose for which money has been utilized or received. For example: accounts relating to salaries, wages, interest paid, Interest received Account etc.

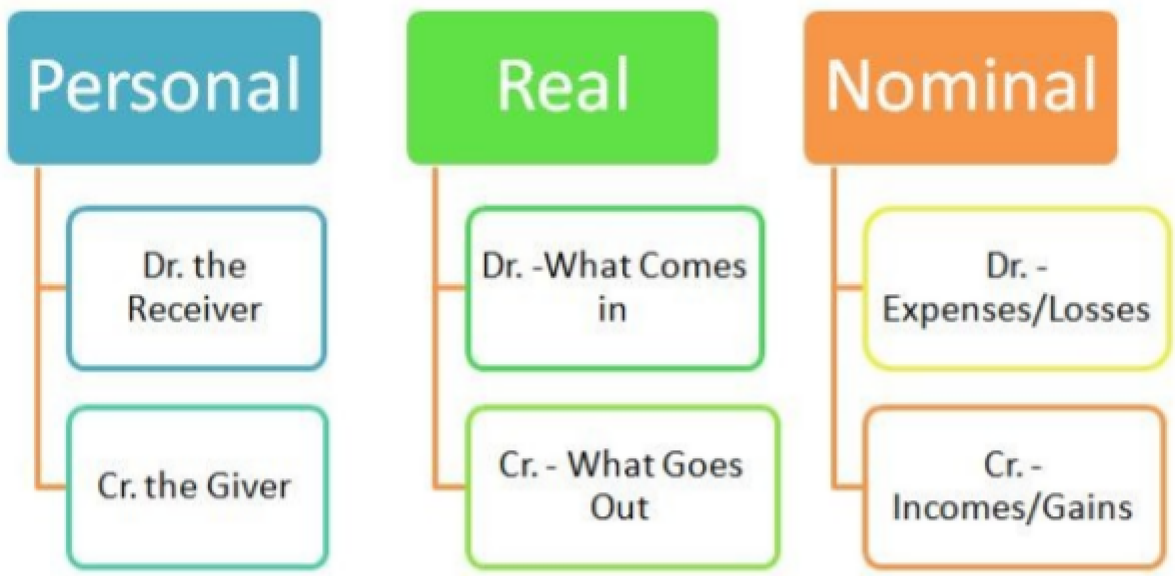
Now let us take some accounts and find its nature on the basis of Traditional Classification of accounts and also name the sub-head if any:

(i)	**Land and Building**	**Real Account**
(ii)	**Purchases**	**Nominal Account**
(iii)	**Sales**	**Nominal Account**
(iv)	**Creditors**	**Personal Account**
(v)	**Rahul**	**Personal Account**
(vi)	**Cash**	**Real Account**
(vii)	**Salary**	**Nominal Account**
(viii)	**Commission Received**	**Nominal Account**
(ix)	**Loan from Bank**	**Personal Account**
(x)	**Money withdrawn by Owner**	**Personal Account**
(xi)	**Computer Software**	**Real Account**
(xii)	**Postal Charge**	**Nominal Account**
(xiii)	**Discount Received**	**Nominal Account**
(xiv)	**Outstanding Wages**	**Personal Account**
(xv)	**Interest on Capital**	**Nominal Account**

Rules of Debit and Credit

Type of Account	**Debit**	**Credit**
Personal Account	The Receiver	The Giver
Real Account	What Comes in	What Goes out
Nominal Account	All the expenses/Losses	All the Incomes/Gains

Rules of Debit and Credit in Traditional Approach



Let's take some transactions and try to analyse these to acquaint with the rules of Debit and Credit.

1. Rohit started business with cash ₹ 5, 00,000

Analysis of Transaction: The transaction increases cash on one hand and increases capital on the other hand. Increases in Cash is debited by applying the rule of real account " Debit what comes in" and Capital is credited by following the rule of Personal A/c " Credit the Giver". In this transaction, owner is giver so Capital A/c representing the owner is credited. Therefore, record the transaction with debit to Cash account and credit to Rohit's Capital account.

2. Opened a bank account with an amount of ₹ 4,80,000

Analysis of Transaction: The transaction increases the cash at bank on one hand and decreases cash in hand on the other hand. Bank is classified under the Personal Account because Bank is considered as an artificial person in the eyes of law bank a/c is debited by followings the rule of personal a/c which states "debit the receiver" due to the rule of real a/c "debit what comes in" and decrease in cash is credited by following the rules of Real Accounts which states "Credit what goes out". Therefore, record the transactions with debit to Bank account and credit to Cash account.

3. Bought furniture for ₹ 60,000 and issued cheque for the same

Analysis of Transaction: This transaction increases furniture (assets) on one hand and decreases bank (assets) on the other hand by ₹ 60,000. Assets which comes into the business are debited and Bank is being credited because of Rules of Personal Account "Credit the Giver". In this transaction, Bank is giving the money. Therefore record the transactions with debit to Furniture account and credit to Bank account.

4. Bought Plant and Machinery from Ramjee Lal for the business for ₹ 1, 25,000 and an advance of ₹ 10,000 is given in cash.

Analysis of Transaction: This transaction increases plant and machinery (assets) by ₹ 1,25,000, decreases cash by ₹ 10,000 and increases liabilities (M/s. Ramjee Lal as creditor) by ₹ 1,15,000. In Real Accounts, "Debit what comes in" Plant and Machinery are debited whereas "Credit what goes out" Cash is going out of business hence credited. On the other hand, Ramjee Lal is a person and is giving Plant and Machinery to business so "Credit the Giver" as per rules of Personal Accounts. Therefore, record the transaction with debit to plant

& machinery account and with credit to Cash account by ₹ 10,000 and Ramjee Lal's account by ₹ 1,15,000.

5. Goods purchased from Sumit Traders for ₹ 55,000

Analysis of transaction: This transaction increases purchases (expenses) and increases liabilities (M/S. Sumit Traders as creditors) by ₹ 55,000. Under Nominal Accounts, Increases in expenses are debited and under Personal Accounts, 'credit the giver' Sumit Traders are giving the goods hence giver of goods has been credited. Therefore, record the transaction with debit to Purchases account and credit to Sumit Traders account.

6. Goods costing ₹ 25,000 sold to Rajani Enterprises for ₹ 35,000

Analysis of transaction: This transaction increases sales (Revenue) and increases assets (Rajani Enterprises as debtors). As per rules of Nominal Accounts, Revenues are credited and as per rules of Personal Accounts, Rajani Enterprises (an artificial person) is receiver of goods hence Debited. Therefore, record the entry with debit to Rajani Enterprises account and credit to Sales account.

7. Paid the monthly store rent ₹ 2,500 in cash

Analysis of transaction: The payment of rent is an expense which is classified under Nominal Account hence debited and Credit cash to record decrease in assets as per rules of Real Account "Credit what goes out". Therefore, record the entry with debit to rent account and credit to cash account.

8. Paid ₹ 5,000 as salary to the office employees

Analysis of transaction: The payment of Salary is an expense which is classified under Nominal Account hence debited and Credit cash to record decrease in assets as per rules of Real Account "Credit what goes out". Thus, debit salary account and credit cash account.

9. Received cheque as full payment from Rajani Enterprises and deposited same day into bank

Analysis of transaction: In this transaction, Bank (an artificial person) is receiving the money, it shall be Debited and on the other hand, Rajani Enterprises as debtors (under Personal Account) is giving the amount it shall be credited. Therefore, record the entry with debit to Bank account and credit to Rajani Enterprises account.

Carefully read the given transactions. Analysis using Modern as well as Traditional approach.

While analysis either way it is important to consider the following points w.r.t :

i. Know the Accounts affected

ii. Nature of Accounts affected

iii. Observe the rules of Debit and Credit for that account

a.	Praveen started business with Cash	10,00,000
b.	Bought goods for Cash	2,00,000
c.	Bought goods from Mukesh	1,00,000
d.	Sold goods for Cash	1,50,000
e.	Sold goods to Bhanu	20,000
f.	Paid salary	10,000
g.	Received Commission	2,000
h.	Paid to Mukesh in full settlement	96,000
i.	Bhanu Paid his dues, Cash discount allowed @5%	

Solution:

Analysis of Transactions

(Modern Approach)

Sr. No.	**Transactions**	**Accounts Affected**	**Nature of Accounts**	**Changes**	**Debit/ Credit**
1.	Commenced Business	Cash Capital	Asset Capital	Increase Increase	Debit Credit
2.	Bought goods	Purchases Cash	Expenses Asset	Increase Decrease	Debit Credit
3.	Bought goods on Credit from Mukesh	Purchases Mukesh	Expenses Liabilities	Increase Increase	Debit Credit
4.	Sold goods	Cash Sales	Asset Revenue	Increase Increase	Debit Credit
5.	Sold goods on Credit to Bhanu	Bhanu Sales	Asset Revenue	Increase Increase	Debit Credit
6.	Paid Salary	Salary Cash	Expenses Asset	Increase Decrease	Debit Credit
7.	Received Commission	Cash Commission recieved	Asset Revenue	Increase Increase	Debit Credit
8.	Paid to Mukesh, Discount Received	Mukesh Cash Discount	Liabilities Asset Revenue	Decrease Decrease Increase	Debit Credit Credit
9.	Received from Bhanu, Discount allowed	Cash Discount Bhanu	Asset Expense Asset	Increase Increase Decrease	Debit Debit Credit

Now try to solve the same problem with "Traditional Approach"

Analysis of Transactions

(Traditional Approach)

Sr. No.	**Transactions**	**Accounts Affected**	**Nature of Accounts**	**Changes**	**Debit/ Credit**
1.	Commenced Business	Cash Capital	Real Personal	Comes in Giver	Debit Credit
2.	Bought goods	Purchases Cash	Nominal Real	Expenses Goes out	Debit Credit
3.	Bought goods on Credit	Purchases Mukesh	Nominal Personal	Expenses Giver	Debit Credit
4.	Sold goods	Cash Sales	Real Nominal	Comes in Income	Debit Credit
5.	Sold goods on Credit	Bhanu Sales	Personal Nominal	Receiver Income	Debit Credit
6.	Paid Salary	Salary Cash	Nominal Real	Expenses Goes out	Debit Credit
7.	Received Commission	Cash Commission received	Real Nominal	Comes in Income	Debit Credit
8.	Paid to Mukesh, Discount Received	Mukesh Cash Discount	Personal Real Nominal	Receiver Goes out Income	Debit Credit Credit
9.	Received from Bhanu, Discount allowed	Cash Discount Bhanu	Real Nominal Personal	Comes in Expenses Giver	Debit Debit Credit

Summary

There may be numerous accounts with which an accountant has to deal with. For the purpose of convenience and uniformity, accounts have been classified into various types. These types are also based upon two approaches:

(i) Modern Approach: In this approach, Accounts are classified into these five parts:

- ***Asset***
- ***Liabilities***
- ***Capital***
- ***Revenues***
- ***Expenses***

(ii) Rules of Debit and Credit

Type of Account	In case of Increase	In case of Decrease
Assets	Debit	Credit
Expenses (Losses)	Debit	Credit
Liabilities	Credit	Debit
Capital	Credit	Debit
Revenue (Gains)	Credit	Debit

(iii) Traditional approach

Under this approach, accounts have been divided into two categories personal and impersonal accounts.

Personal accounts: Personal accounts include the accounts of persons with whom the business deals. These are further categories in three types:

- Natural personal accounts
- Artificial personal accounts
- Representative personal accounts

Impersonal accounts: All other accounts except personal accounts are classified under Impersonal accounts. The impersonal accounts may further be classified under two categories:

A. **Real accounts**: Real accounts may be of the following types:

- Tangible real accounts
- Intangible real accounts

B. **Nominal Accounts**

(iv) Rules of Debit and Credit

Type of Account	Debit	Credit
Personal A/c	The Receiver	The Giver
Real A/c	What Comes in	What Goes out
Nominal	All the expenses/Losses	All the Incomes/Gains