

- (i) the receiving of value on the one hand, and
- (ii) the giving of the same value on the other.

A giver must have a receiver and a receiver must have a giver.

It must be carefully noted that the giving and receiving aspects take place between accounts and in the same set of books. For instance, when a Television set is purchased by a business firm from Sohan on credit, Television Account receives and Sohan's Account gives. The two accounts namely Receiving (Television) Account and Giving (Sohan's) Account are affected in the opposite directions in the sense that if one account receives the benefit in the form of cash, goods or services (**money's worth**), there must be a corresponding loss of benefit to another account. And in order to have complete record of each business transaction, its two-fold aspect—receiving and giving—must be recorded simultaneously that is at the same time. The best known system which recognises the two-fold aspect of every business transaction is called the Double Entry System.

It is based upon the fact that just as every business transaction involves at least two parties or two items so the record of each transaction must be made in at least two accounts.



10. THE BASIC RULES OF DEBIT AND CREDIT

Double Entry System means the recording of both the aspects—receiving of values and giving of values—of each transaction. These two aspects are distinguished in terms of Debit and Credit. Dr. is symbol for Debit and Cr. is a symbol for Credit. An account is capable of receiving and giving of values. When an account receives a value or benefit, it is debited and when it gives a value or benefit, it is credited. The rule is : Debit: the Account that receives the benefit. Credit: the Account that gives the benefit.

In other words, an account is debited with any value that comes into that account and an account is credited with any value that goes out of that account. Every transaction affects at least two accounts. If one account receives a benefit of certain value, another account would give the benefit of the same value. Thus the rule :

Every debit must have a corresponding credit.

Every credit must have a corresponding debit.

This is the basic rule of Double Entry Book-Keeping.

Example : A sells a book to B for ₹ 500 cash. A's cash box receives ₹. 500 and his stock of books, i.e., goods, is reduced by one book worth ₹ 500. On the other hand, B's cash box gives ₹. 500 and his stock of books is increased by one book worth ₹ 500. The entries necessary to record this transaction in each party's books are therefore as follows :

(i) A's Books : Debit : Cash Account (Receiving Account)

Credit : Goods Account	with ₹ 500
	(Giving Account)

with ₹ 500	
	with ₹ 500

(ii) B's books	: Debit	: Goods Account	(Receiving Account)	with ₹ 500
	Credit	: Cash Account	(Giving Account)	with ₹ 500

Note: A Goods Account is not opened in practice. *3m*

Purchase Account is opened to record purchase of goods and sales Account is opened to record sales of goods. So the entries would be :

(i) In A' Books	: Debit	: Cash Account	(Receiving Account)	with ₹ 500
	Credit	: Sales Account	(Giving Account)	with ₹ 500
(ii) In B's Books	: Debit	: Purchases Accout	(Receiving Account)	with ₹ 500
	Credit	: Cash Account	(Giving Account)	with ₹ 500

11. ADVANTAGES OF DOUBLE ENTRY SYSTEM

- (i) It provides a check upon the arithmetical accuracy of the clerical work. Since every debit has a corresponding credit, the total debits at any time must equal the total credits in terms of rupee amounts.
- (ii) From the personal account, the amounts due to and due by each person, with whom the business deals, can be ascertained at any time.
- (iii) The information supplied by the books is not limited to personal accounts (i.e., accounts of debtors and creditors) only; the impersonal accounts furnish additional information in respect of assets of the business.
- (iv) The balances of nominal accounts can be collected together in Trading and Profit and Loss Accounts which disclose the result of the operations, i.e., the gross profit (or gross loss) and net profit (or net loss) for any given period.
- (v) By means of a Balance Sheet, in which balances of accounts representing capital, assets and liabilities are recorded, the financial position of the business, at any given moment, can be ascertained.
- (vi) The double entry system with its system of counter-checks facilitates the detection of errors and frauds.

12. APPLICATION OF DEBIT-CREDIT RULES TO ACCOUNTS

The application of debit-credit rules for different types of accounts are explained below:

- (A) **Personal accounts** : Personal accounts are the accounts of persons—natural and artificial. A person can either receive a benefit or give a benefit. Debit: the account of the person who receives some thing and Credit: the account of the person who gives some thing.

Example : A purchases goods from B on credit. The two accounts involved are : Purchases Account and B's Account in the books of A. B's Account is a personal

Answers:

S. No.	Name of the Account	Type of Account	Reason
1.	Salaries Account	Nominal Account	Account of an expense
2.	Outstanding Rent Account	Personal Account	Account representing landlord
3.	Shri Ram College of Commerce	Personal Account	An artificial person
4.	Stationery Account	Nominal Account	Account of an expense
5.	Cash Account	Real Account	Account of an asset
6.	Bank Account	Personal Account	Account of a banker, an artificial person
7.	Machinery Account	Real Account	Account of an asset
8.	Discount Account	Nominal Account	Account of an expense
9.	Sales Account	Nominal Account (It can also be treated as Real Account)	Account of sales as income (or account of goods as an asset)
10.	Purchases Account	Nominal Account (it can also be treated as Real Account)	Account of purchase as an expense (or account of goods, as an asset)
11.	Loan Account	Personal Account	Account of a person to whom a loan is granted or given and from whom amount has been borrowed
12.	Repairs to Building Account	Nominal Account	Account of an expense
13.	Investment Account	Real Account	Account of an asset
14.	Delhi Sports Club Account	Personal Account	Account of an artificial person
15.	Motor Vehicles Account	Real Account	Account of an asset
16.	Bad Debts Recovered Account	Nominal Account	Account of an income
17.	Postage	Nominal Account	Account of an expense

account and since he gives the goods, his account will be credited. Similarly in the books of B, two accounts involved are Sales Account and A's Account. A's account is a personal account and A receives the goods, his account will be debited in the books of B.

Thus The Rule—Debit: The Receiver; Credit: The Giver.

- (B) **Real or property accounts :** Real or property accounts are the accounts of things which are though real but lifeless, e.g., cash, building, furniture etc. They can neither receive nor give the benefit. But a thing may come into the business when it is purchased and go out of the business when it is sold. Debit: the account of the thing which comes in and Credit: the account of the thing which goes out.

Example : Ashwani buys a machine from Sachin. Machine comes into the business of Ashwani and goes out of Sachin's business. Ashwani will debit the Machine Account in his books, while Sachin will credit the Sales Account in his books.

Thus The Rule—Debit: What Comes In; Credit: What Goes Out

- (C) **Nominal or fictitious accounts :** These are the accounts of expenses, losses, incomes and gains. Expenses and losses accounts are debited and income and gains accounts are credited. For instance when wages are paid, the two accounts involved are cash and wages. Wages paid is an expense and hence nominal account and wages account will therefore be debited. Similarly when income is received, say, interest in cash, the interest account will be credited since it is an income account.

Thus The Rule—Debit: Expenses and Losses; Credit: Incomes and Gains.

13. BASIC OR CONVENTIONAL RULES SUMMARISED

The application of debit-credit rules to different types of accounts in the process of recording (journalising) are repeated below :

Personal Accounts

Debit : The Receiver; Credit : The Giver

Real Accounts

Debit : What property comes in; Credit: What property goes out

Nominal Accounts

Debit : All Expenses and Losses Items; Credit : All Incomes and Gains Items.

Assets → ↑ in assets → Dr , ↓ → Cr.
 Liabilities → ↑ in liabilities → Credit , ↓ → Dr

~~Ques~~ 14. EXAMPLES OF CLASSIFICATION OF ACCOUNTS

Classify the following accounts into : (a) personal accounts (b) real accounts and (c) nominal accounts:

1. Sales Account	27. Rent Paid in Advance
2. Outstanding Rent Account	28. Commission received in Advance Account
3. Shri Ram College of Commerce Account	29. Apprenticeship fees Account
4. Stationery Account	30. Loose Tools Account
5. Cash Account	31. Prince Trading Co. Account
6. Bank Account	32. Prepaid Insurance Account
7. Machinery Account	33. Purchases Returns Account
8. Discount Account	34. Sales Returns Account
9. Sales Account	35. Drawings Account
10. Purchases Account	36. Depreciation Account
11. Loan Account	37. Charity Account
12. Repairs to Building Account	38. Danations Account
13. Investment Account	39. Provision for bad and doubtful debts Account
14. Delhi Sports Club Account	40. United Nations Account
15. Motor vehicles Account	41. Capital Account
16. Bad Debts Recovered Account	42. Share Capital Account
17. Postage Account	43. Stock Accounts
18. Freight Account	44. Suspense Account (temporary Account)
19. Carriage Account	45. Provision for Discount on Creditors Account
20. Bills Receivable Account	46. National Savings Certificate Account
21. Bills Payable Account	47. Delhi Development Authority Account
22. Bank Deposit Account	48. Municipal Corporation of Delhi Account
23. Provision for Discount on Debtors Account	49. Accrued Interest Account
24. Provision for Depreciation on Fixed Assets Account	50. Goodwill Account
25. Loss of Goods or Assets by Fire Account	51. Bank Overdraft Account
26. Interest Account	52. Cost of the Goods Sold Account

18.	Freight Account	Nominal Account	Account of an expense
19.	Carriage (inwards or outwards)	Nominal Account	Account of an expense
20.	Bills Receivable Account	Real Account	Account of an asset (bills of exchange)
21.	Bills Payable Account	Real Account	Account of a bills of exchange
22.	Bank Deposit Account	Personal Account	Account of a banker
23.	Provision for Discount on Debtors Account	Personal Account	Account of a person in respect of whom provision for discount is made
24.	Provision for depreciation on fixed assets	Nominal Account	Account of an expense for the use of an asset.
25.	Loss of goods or assets by fire	Nominal Account	Account of loss
26.	Interest Account	Nominal Account	Account of an expense if interest paid; account of an income when interest received.
27.	Rent paid in advance	Personal Account	Account representing a person, landlord
28.	Commission Received in advance account	Personal Account	Account representing a person from whom commission has been received in advance
29.	Apprenticeship Fees	Nominal Account	Account of an income
30.	Loose tools	Real Account	Account of an asset
31.	Prince Trading Company	Personal Account	Account of an artificial person
32.	Prepaid Insurance	Personal Account	Account representing a personal account of an insurance company
33.	Purchases Returns Account	Nominal Account (It can also be regarded As Real Account)	Account which is saving of an expense (or Account of goods, that is an account of an asset)

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34.	Sales Returns Account	Nominal Account (It can be treated as Real Account)	Account of sales returns which is a loss of income (or Account of goods that is an asset)
35.	Drawings Account	Personal Account	Account of person, the owner
36.	Depreciation	Nominal Account	Account of an expense
37.	Charity Account	Nominal Account	Account of an expense
38.	Donations	Nominal Account	Account of an expense when donations given; account of an income when donations received
39.	Provision for Bad and Doubtful Debts	Personal Account	Account of a person for whom provision for doubtful debts is made
40.	United Nations' Account	Personal Account (Representative Account)	Account of an artificial person
41.	Capital Account	Personal Account	Account of the owner's investment in the business
42.	Share Capital Account	Personal Account (Representative Account)	Account of the shareholders' capital
43.	Stock Account	Real Account	Account of unsold goods, (Asset Account)
44.	Suspense Account	Stop Gap Account	For making up the short side of the Trial Balance
45.	Provision for Discount on Creditors Account	Personal Account	Account of a person (creditor) for whom provision for discount is made
46.	National Saving Certificates	Real Account	An asset Account i.e. amount deposited with Post Office
47.	Municipal Corporation of Delhi	Personal Account (Representative Account)	Account of an artificial person
48.	Delhi Development Authority	Personal Account (Representative)	Account of an artificial person

49.	Accrued Interest Account	Personal Account	Amount of interest due from a person
50.	Goodwill	Real Account	Amount of an intangible fixed asset.
51.	Bank Overdraft	Personal Account	Account of a person (the bank) from whom the money has been borrowed
52.	Cost of the goods sold	Nominal Account	Account of an expense to be matched against sales revenue

15. ANALYSIS OF SOME BUSINESS TRANSACTIONS

~~(The, 19/10)~~

1. Shweta commences a business with a capital of ₹ 10,00,000 trading under the name of Sai General Stores.

It must be stated at the outset that we are concerned only with the transactions of Sai General Stores and not with that of its owner. It is simple to understand that for the purpose of accounting records, the business, that is, **Sai General Stores** and its owner, Shweta, are two separate entities irrespective of the fact that Shweta is the sole owner of her business. The transactions between Shweta and her business will be recorded in the personal account of Shweta in the same way as transactions with the customers of the business are recorded.

(i) The accounts affected in the transaction are : Account of the owner Shweta and Cash account. (ii) The class or the nature of the accounts: Shweta's Account—Personal Account and Cash Account—Real Account, because cash is a property. (iii) Applying the rules of Debit and Credit: Cash has come in—Debit: Cash Account. Shweta—a personal account, is the giver of money to the business and therefore Credit: Shweta's Account. (iv) Equality of debit and credit amounts is common to all transactions and hence not repeated. The term Shweta's Capital Account is used so as to distinguish the introduction of cash by persons other than the proprietor.

2. Paid into Dena Bank ₹ 2,50,000.

(i) The two accounts affected are : Cash Account and Bank Account. (ii) They belong to : Real Account—Cash. Personal Account—Bank. (iii) Apply the Debit-Credit rule : Cash is going out of business and therefore Cash Account will be credited; Dena Bank Account is a personal account that receives the benefit or receiver of cash. Hence Dena Bank Account will be debited.

3. Bought goods for ₹ 2,20,000.

In this case the goods have been bought for cash. This is implied from the transaction since the name of the party or the words 'on credit' are missing. (i) The accounts

affected are : Purchases Account and Cash Account. (ii) Purchases Account is nominal account because it is an expense of the business. Hence, Debit: Expense and Losses. Purchase account may also be treated as real account because 'goods' is a thing of value. Cash Account is also a real account. (iii) Purchases Account debited because of an expense or goods come into the business and cash account credited since cash has gone out of the business.

4. Bought goods from Shri Hari Chand for ₹ 1,10,000.

In this transaction, it is not clear whether the goods are purchased for cash or credit. But when supplier's name is given and the word 'paid' or 'for cash' is missing, it can be safely presumed that the purchases are made on credit.

(i) Analysing the transaction, we find the two accounts affected are : Purchases and Hari Chand's Accounts. (ii) Purchases Account is a nominal account or real account as stated in Transaction no. 3 and Hari Chand's Account is a personal account. (iii) Since purchases are an expense or goods come in, Debit : Purchases Account and as the benefit is given by Hari Chand, Credit : Hari Chand's account.

5. Bought office furniture from Goldage and Co. for ₹ 75,000.

(i) The two accounts in this business transaction are : Office Furniture and Goldage and Co. Accounts. (ii) Office Furniture is a property and therefore a real account while Goldage and Co. is a personal account, a firm made up of person(s) doing business. (iii) Since furniture is coming in, Office Furniture account is debited and not the purchases account because it is not the goods meant for sale but it would be retained in the business as an asset. Goldage and Co., being a personal account and the giver of the benefit, will be credited.

6. Goods sold to Shri Hira Lal for ₹ 1,25,000.

This is a credit transaction for the reasons explained in connection with Transaction no. 4. Analysing the transaction, we find that : (i) The two accounts affected are Sales Account and Hira Lal's Account. (ii) Sales Account is a real account as the goods are affected and Hira Lal's account is a personal account. Since goods are going out, the sales account is credited (sales account may also be treated as an income and hence a nominal account). Credit: Income and gains Account and the account of Hira Lal would be debited, being the receiver of the goods.

7. Bought building for cash ₹ 5,25,000.

(i) The two accounts affected are : Building and Cash. (ii) Building is a property and thus real account and cash is also a property, a real account. (iii) Building comes into the business and thus Building Account will be debited; cash goes out of the business, Cash Account will be credited.

8. Paid ₹ 1,50,000 for goods received from Arun Udyog.

(i) In this business transaction the accounts affected are : Purchases Account and

Accounting Process - I : Journalising and Ledger

Cash Account. It may be noted that the account of Arun Udyog is not affected since the firm, the supplier, has received the payment. (ii) Purchases Account is a nominal account. (iii) Purchases Account is debited and Cash Account is credited since cash goes out of the business.

9. Received a sum of ₹ 50,000 being rent for the portion of a building let out.
 (i) The two accounts are : Cash Account and Rent Account. (ii) Cash is a real account and rent is a nominal account. (iii) Applying the debit-credit rules for each, we find cash is coming in and Cash Account will be debited while rent is received, it is an income and therefore Rent Account is credited.
10. Goods sold to Shyamji for cash ₹ 1,50,000
 (i) The two accounts affected are : Cash Account and Sales Account. Shyamji's account is not affected since payment has been received for the sales. (ii) Sales is an income account and cash is a real account. (iii) Cash Account will be debited as cash comes into the business and Sales Account is credited as it is a nominal account. Sales account may also be treated as a real account. Credit: What goes out.
11. *Shweta, the proprietor contracted with Jain Construction Co. for the renovation of the building at an estimated cost of ₹ 1,25,000.*
Although event has occurred but since it does not involve any transfer of money for the time being, it would not be recorded in the account books. Hence no entry.
12. Paid a monthly salary to Mr. Balram, the manager ₹ 15,000.
 In this transaction the two accounts affected are : Salary Account and Cash Account. Though Balram receives salary as a manager, his personal account will not be affected. The reason is not difficult to explain. The payment has been made to him by the business in return for his services rendered as a manager and therefore he is not liable to return the corresponding value. The Salary is an expense and hence a nominal account. It would be debited while Cash, being the real account, will be credited. The rule is : The account of a party who receives a fresh benefit from the business will be debited only if he has to return the corresponding value at a later date. Similarly the account of a party which gives a fresh benefit to the business would be credited only if the business is to return him corresponding value at a later date.
13. Received commission from Mr. Kishan Chand ₹ 5,000.
 In this case the two accounts affected are : Commission Account and Cash Account. Kishan Chand's Account is not affected since he is paying the business the commission for the services rendered by the business and therefore there is no obligation to refund the amount. Cash has come in and Cash Account is debited and commission is a gain or income account and Commission Account is credited.

14. Bought shares in D.C.M. Ltd. for ₹ 45,000.
 The purchase of shares is an investment. The two accounts affected are : Investment Account and Cash Account. Investment Account is a real Account since shares represent the acquisition or purchase of property. Investment account would be debited as shares come in and Cash Account is credited, as cash goes out of the business.
15. Paid by cheque for fire insurance premium ₹ 20,000.
 (i) The two accounts affected are : Bank Account and Fire Insurance Account.
 (ii) Bank Account is a personal account because it is an account with a banker. Fire Insurance Account is a nominal account since it is a business expense. Insurance Account will be debited and Bank Account is credited since the banker is giving or paying the insurance premium.
16. Paid Shweta's life insurance premium ₹ 9,000.
 The two accounts affected are : Cash Account and Drawings Account. The life insurance premium is a personal expense and not a business expense. Thus life insurance is not at all considered. Drawings Account is personal account and Cash Account is real account. Debit: Drawings Account, the receiver and Credit : Cash Account since it goes out of the business.
17. Paid for an insertion in the Times of India ₹ 20,000.
 The concerned accounts are : Advertisement Account and Cash Account. Advertisement is a business expense and thus a nominal account and Cash Account is a real account. Debit: Advertisement Account and Credit: Cash Account.
18. Bank collected dividends on our investments ₹ 16,000.
 The accounts affected are : Dividends Account and Bank Account. Since dividends are received on investments made out of business funds, they are business income and hence nominal account. Bank Account is a personal account. Debit: Bank Account (Receiver of benefit); Credit: Dividends Account (business income).
19. Paid Shri Hari Chand on account ₹ 70,000.
 The term 'on account' means that the business enterprise already owes some money to Shri Hari Chand and the same is being paid now partly. In this transaction the account receiving the benefit is Hari Chand's Account and cash goes out of the business. Hence, Debit: Hari Chand's account; Credit: Cash Account.
20. Withdrawn from Bank ₹ 55,000.
 The treatment is simple as the cash has come in and the Bank has given the same. Debit: Cash Account (i.e., real account — debit : what comes in) : Credit: Bank Account (i.e., personal account — credit : the giver).
21. Borrowed from Bank ₹ 65,000.
 This transaction involves two accounts, namely: Cash Account and Bank loan

Account. Cash Account is a real account and Bank Loan Account a personal account. Since cash comes in, Cash Account would be debited while the giver is the bank, Bank Loan Account will be credited. The term Bank loan (or Bank Overdraft) is used to distinguish the withdrawals from the bank : the money belonging to the business as against the loan taken from the bank.

22. Received from Shri Hira Lal a bill at two months for ₹ 40,000.

In this transaction, the two accounts affected are : Bills Receivable Account (i.e., negotiable instrument which is a sort of deferred payment device) and Hira Lal's Account. Bills Receivable Account is a real account and it will be debited while the personal account of Hira Lal is credited since he gives the bill.

23. Accepted the Bill drawn by Shri Hari Chand ₹ 20,000.

In this transaction the bill on which the business is liable to make payment has gone out of business and Hari Chand has received the same. The two accounts affected are: Bills Payable Account being the real account and the Account of Hari Chand, the personal account. Hence, Debit: the receiver, i.e., Hari Chand; Credit: What goes out, i.e., Bills Payable.

24. Paid Shri Mohan Lal cash ₹ 1,250 in lieu of a cheque.

This item comprises of two transactions which must be recorded simultaneously. The two transactions are : (i) Receipt of a cheque from Mohan Lal and (ii) Payment of cash to Mohan Lal. As regards the first transaction Cash Account is debited on the assumption that the cheque is treated as cash. But if the cheque is immediately paid into the bank, the Bank Account will be debited. Mohan Lal's account, however, will be credited since his is a personal account and he is the giver of the cheque. In the second transaction, Debit: Mohan Lal's Account since he receives the cash (i.e., a benefit) and Credit: Cash Account since cash goes out.

25. Paid for repairing the office furniture ₹ 5,000.

The two accounts affected are : Repairs Account and Cash Account. It must be noted that the Furniture Account is not affected at all since furniture neither comes in nor goes out. Repairs Account, being an expense account, comes in the category of nominal accounts and it will be debited and cash account being real account, is credited as cash goes out.

26. Gave loan to Rachna ₹ 1,60,000 @ 10%.

The two accounts affected are: Rachna' Loan Account and Cash Account. Rachna's Loan Account is personal Account and Cash Account which is real account Debit: Rachna' Loan Account, being receiver of the benefit and Credit: Cash Account because cash is going out of business.

27. Returned Goods to Hari Chand ₹ 10,000.

The two accounts involved are : Hari Chand and Purchase Returns Account. Hari

Till next

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Chand Account is a personal account. Debit: the receiver of the benefit. Purchases returns account is real account Credit; What goes out. Hari Chand is the receiver of the benefit goods while goods are moving out of the firm. Purchase Returns may also be treated as nominal account. Returns of goods is saving in expense which is equivalent to income and hence Purchase Returns Account is credited. The latest trend is to treat Purchases Returns Account as a nominal account.

28. Opened a Bank Account for ₹ 20,000.
 The two accounts involved are : (i) Bank Account — the Personal Account. Debit: the receiver of the benefit cash; (ii) Cash Account is Real Account. Credit: What goes out. Bank is receiving the benefit and cash is going out of business firm.

29. Charged Renu ₹ 5,000 commission for services rendered.
 The two accounts affected are : Renu and Commission. Renu account is personal account and Debit: the Receiver of the benefit, that is Service. Commission Account is nominal account. Credit: Incomes and gains. Renu is the receiver of the benefit service and commission earned is income of the business.

30. Rachna agreed to pay interest of ₹ 16,000 on the amount (₹ 1,60,000) advanced to her.
 The two accounts involved are Rachna' loan account and not Rachna' and Interest on loan Account. Rachna' loan account is a personal account. Debit: The receiver of the benefit (Loan). Interest on Loan is the income on loan. It is a nominal account. Credit: The income and Gains. Rachna is getting the benefit for using the loan while interest is income to the firm.

31. Paid income tax ₹ 1,50,000
 The two accounts involved are : Drawings Account and Cash Account. Drawings account is a personal account. Income tax paid is to be treated as personal expense of the owner. Debit: The Receiver of the benefit; cash account is a real account. Credit: What goes out. When income tax is paid by firm it is the personal expense of the owner who receives the benefit. Cash account is a real account. Credit: Which goes out, that is cash.

32. Allowed discount to Hira Lal ₹ 2,500
 The two accounts affected are : Discount Allowed and Hira Lal. Discount Allowed account is a nominal account and Hira Lal account is personal account. Debit: Discount Allowed Account (for expenses and losses) and Credit: Hira Lal Account (for the benefit given to him for discount). Cash is not involved.

33. Discount received from Hari Chand ₹ 1,500
 The two accounts affected are: Discount Received and Hari Chand Account. Discount Received Account is a nominal account and Hari Chand Account is a

personal account. Debit: Hari Chand Account (for receiving the benefit of prompt payment). Credit: Discount Received Account (for income and gains)

Railways freight paid on furniture ₹ 1,200

The two accounts affected are: Furniture Account (Railway freight paid on furniture is to be treated as a part of cost of furniture) and Cash Account. Both are real accounts. Debit: Furniture Account (What comes in); Credit: Cash Account (What goes out).

Hira Lal returns goods ₹ 4,500

The two accounts affected are : Sales Returns and Hira Lal. Sales Returns Account is real account or nominal account. Hira Lal Account is personal account. Debit: Sales Returns Account (for goods comes into business, if treated as real account or debit for loss of income, if treated as nominal account; Credit: Hira Lal Account (for giving loss of income to the firms). At present sales Returns Account is treated as nominal account.

Till taking for the month ₹ 15,000

Till taking means cash sales, Thus two accounts involved in this transaction are : (i) Cash Account and (ii) Sales Account. Cash Account is a real account and Sales Account may be treated either as real account or nominal account.

Debit: Cash Account (for cash comes into the firms).

Credit: Sales Account (for goods go out of business if treated as real account or sales is income, if treated as nominal account).

Bank charges ₹ 250

The bank charges are due on account of the banking service provided by the banker. So the two accounts affected are : (a) Bank Charges Account and (b) bank Account. Bank charges account is a nominal account Debit : The Expenses and Losses; Credit: Bank Account (Giver of the service).

16. RECORDING PROCESS AT A GLANCE

Analysis of the business transactions given above brings into focus the following features regarding application of debit-credit rules to personal, real and nominal accounts:

Purchases Account

account is concerned with the purchase of goods for resale at a profit. The business enterprise incurs an expense to earn profit or income. So the purchases may be regarded as expense of the firm. In fact purchases are the major expenses for a trading or a manufacturing firm. It is because of this reason that purchases are transferred to the debit of the trading account from the purchases account or trial balance, as the case may be.